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COMMERCE AMERICA

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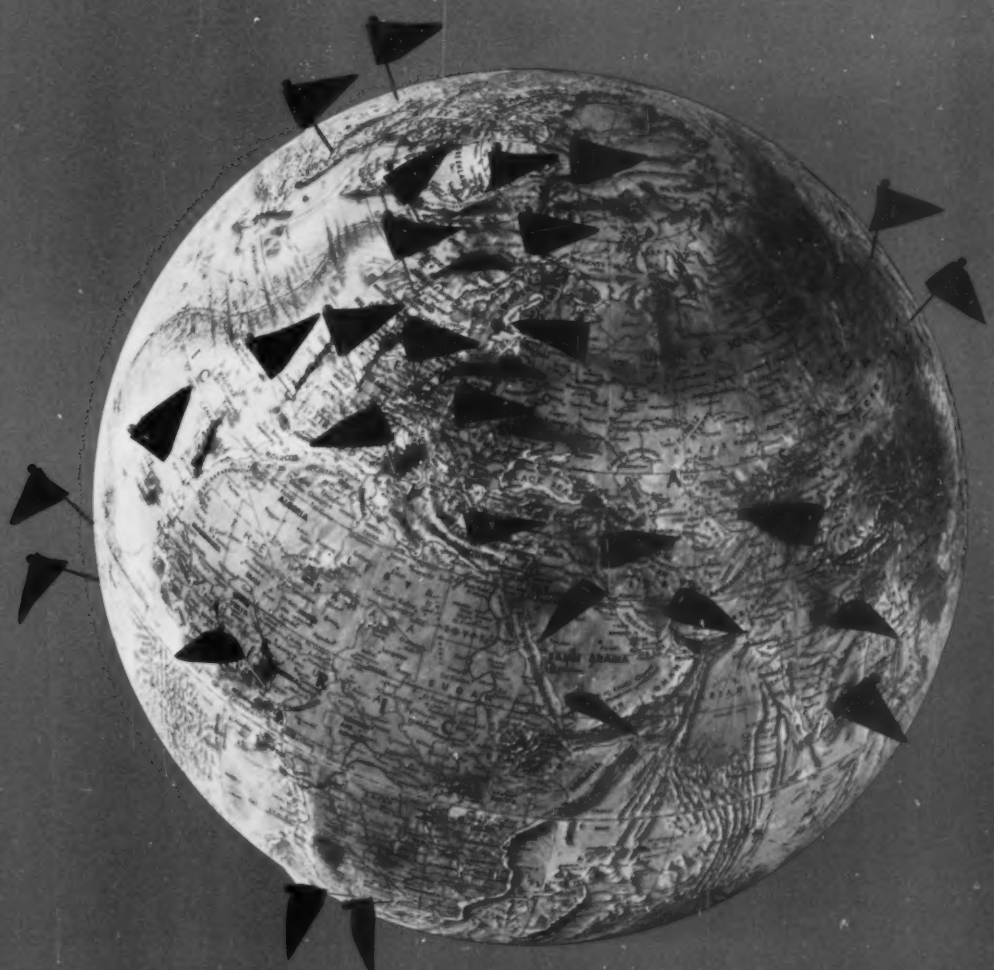

World Trade Outlook

Newsmemo

More than 200 consultative meetings have been held in the past two years. That tells a lot about what has been happening as U.S. industry and U.S. official representatives have gotten together to hammer out the country's trade negotiation positions. The cooperative effort was called for under provisions of the Trade Act of 1974, to secure essential advice as the United States entered the GATT Tokyo Round of multilateral trade talks.

About 500 industry representatives have taken part in these meetings since early 1975. They are members of 27 Industry Sector Advisory Committees (ISACs) and the Industry Policy Advisory Committee (IPAC). The program is operated jointly by the Department of Commerce and the Office of Special Trade Representative. Each of the ISACs compiled a separate report containing detailed advice and information on U.S. and foreign trade barriers affecting individual products. The information contained in these reports was obtained from industry in general as well as the ISAC members themselves.

A pivotal safety standard decision is just ahead for the lawn and garden equipment industry. The Consumer Product Safety Commission is currently evaluating a mandatory safety standard for power mowers. Action on this issue is now projected for April. If the proposed safety standard is promulgated it would be followed by price increases of 15-25 percent among the affected products. Industry sources feel that minimum safety standards are warranted, but believe the resultant price hikes could have a dampening effect on the industry's growth for several years. Sales of mowers, lawn and garden tractors, rotary legal problems being considered by the UN Law of the Sea conferees.

Mining of deep sea nodules came a step closer to reality this month. A research vessel connected with the program of Ocean Mining Associates (a joint venture of U.S. Steel and Union Miniere of Belgium) has begun recovery operations 1,100 miles southwest of San Diego. It aims to bring up 15,000 tons of nodules containing 25 percent manganese, 1 percent each of nickel and copper, and .35 percent of cobalt. Another affiliate of the firm has already recovered large quantities of nodules from the Blake Plateau, 2,600 feet underwater off the Florida-Georgia coast. Success of the venture depends not only on defeating physical problems, but on solutions to the complex international political and legal problems considered by the UN Law of the Sea conferees.

Next to petroleum, coffee is the largest export earner for the world's developing nations. Natural disasters in the supplying areas have brought wholesale prices to record levels. Consumer reaction has been vigorous, including some calls for national boycotts. Tight supplies and rising prices are foreseen at least through the 1978-79 marketing season. The International Coffee Agreement that went into effect last October is aimed at stabilizing trends over a longer period of time. It will probably not have a significant effect on market trends in the next few years.

The keynote is collaboration, not competition, in an unusual joint presentation by three Southern states. The advantages of industrial investment in Arkansas, Mississippi and Tennessee are summarized in a new promotional report. Text and charts demonstrate the plus features of the three states in such categories as transportation, vocational-technical training programs, tax and labor cost conditions, amenities and quality of life. The joint report of the three states' development agencies shows why $8 billion in plant expenditure was made in the area in the 1970-1975 period. For a copy write "Tri-State Report," Arkansas Industrial Development Commission, State Capitol, Little Rock, Ark. 72201.

Two useful items in any company's travel kits: a worldwide holiday calendar and a listing of principal trade exhibitions. The December issues of this magazine carried them; now they have been reprinted as foldouts and are available free from the Commerce Department District Offices. Ask for the 1977 Worldwide Business Holiday Calendar and the 1977 Worldwide Trade Fair Listing. U.S. Commercial Officers in Embassies and Consulates on all the continents collaborated with the Commerce America staff on these tabulations.

Eximbank compares its export credit support with that of other nations: It is fully competitive on insurance, guarantees; on direct or discount loans, basically equal to Canada, Italy, Germany, less so re Japan, France, UK; it cannot (and wouldn't) give inflation indemnity insurance as in France and UK, nor the mix of export credit with concessionary development assistance aid offered by France and Japan.

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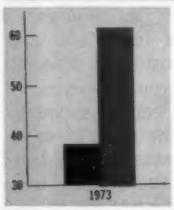

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Economic Highlights

Despite some strengthening, business spending on new investment remains moderate; this has raised a difficult question for economists since technical conditions for capital outlays are generally favorable.

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U.S. Trade Forecast For 1977

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COVER: Special semi-annual World Trade Outlook issue covers current economic scene and prospects for U.S. sales in the major trading nations. Commerce Department international trade specialists have written these summary reports, based on information supplied by the U.S. Foreign Service.

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Business Investment Plans Show Slight Strengthening

This column was prepared by John W. Kendrick, Commerce Chief Economist, in collaboration with G. Donald Hanrahan.

John W. Kendrick

The growth of business spending on fixed investment remains relatively moderate for this stage of a business recovery. This has puzzled many observers, since technical conditions that usually induce business growth are generally favorable.

The latest survey conducted by the Department of Commerce indicates that business expects to invest about $135 billion in plant and equipment during this year, about 11 percent above last year's annual level. The projected rate of change is less than that of recent private surveys but is considerably faster than last year's rate of 7½ percent, based on preliminary data. The percentage increase for 1977 converts to a 6 percent rise in real terms if the inflation rate in capital goods prices continues at last year's rate. However, the respondents to the survey apparently expect capital goods prices to rise 8 percent, which would mean a real increase of about 3 percent, or not much above last year's growth. In real terms, investment in 1976 was up only 2.7 percent from its 1975 level, as indicated in Chart 1.

The Department's survey of annual planned capital expenditures, which has generally provided reasonably accurate predictions in the past, was taken in late November and early December. At that time, business planners had at hand only the barest sketch of governmental fiscal policy plans for the near future. Furthermore, the brisk increase in retail sales in December was reported after the survey. Thus, business executives may revise their plans upward now that much of the uncertainty concerning President Carter's plans for economic stimulus has been cleared away and consumer sales have moved sharply upward after the sluggishness of summer and early fall. Business frequently escalates its investment plans in midstream of economic expansions.

On the grounds of the data reported, however, the investment component would contribute only minimally to real growth during the year. The latest data can be compared with the figures from an earlier Department of Commerce survey taken in late October and November to render a contour of spending. That survey provided spending estimates for the first two quarters of 1977. The contour derived from splicing together the two sets of data shows a rate of increase during the first half of 1977 only half as rapid as the increase in the latter half of 1976. It indicates an acceleration in the second half, with the rate of expansion returning to the pace of the latter half of 1976.

The manufacturing sector is signalling a slightly greater rate of increase in investment than the nonmanufacturing sector. Among manufacturing industries, the auto industry, as public announcements by the firms have suggested, is planning a second consecutive year of rapid investment expansion, 38 percent in 1977 compared with 20 percent in 1976. Another transportation industry, aircraft manufacturing, expects a somewhat accelerated spending rate for the year. The machinery industries plan to raise investment at the same rate as last year. In a reversal of the shrinking investment pattern last year, there will be moderate increases in both the steel and nonferrous metals industries. The level of investment in the steel industry, nevertheless, will be only a shade above the level in 1975; and in the nonferrous metals industry, the anticipated 1977 level will remain below that of 1975.

In industries manufacturing nondurable goods, the rubber industry reflects the most quickened rate of increase, while the paper industry reports that it will decelerate its capital spending slightly. Capital expansion in the chemical and petroleum product areas accelerate moderately, and the textile and food industries plan on significantly reduced increases, according to the recent Department survey.

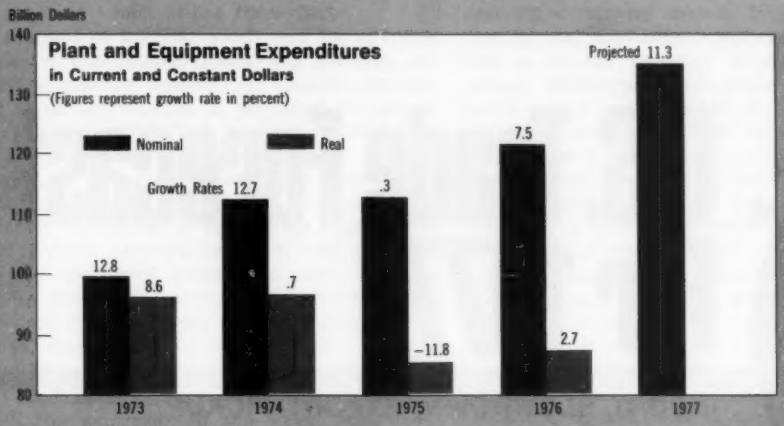
In the nonmanufacturing group, both railroads and airlines have posted planned reversals toward expansion of capital from last year, but only the railroads will exceed the 1975 level. Investment in public utilities should grow somewhat faster than in the previous year, if that industry's plans are realized.

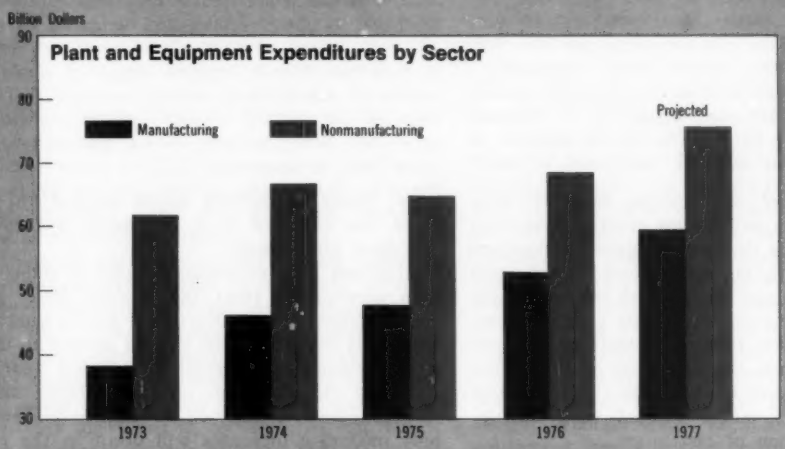
The sluggishness of investment in this recovery has posed a paradox for business conditions analysts because the movements in cash flow, interest rates, and the relative cost of labor and capital (see charts)—all considered determinants of investment—would suggest a more vigorous takeoff in capital spending. On the negative side, the rate of capacity utilization in manufacturing has been noticeably weak. This factor has been cited as a primary explanation of the modest investment growth. The high unemployment rate and the uncertainties regarding the nature of voluntary price and wage controls, production site regulations, and the ability of the economy to sustain sales growth have also been listed as negative or dampening factors on the vitality of investment.

Orders for nondefense capital goods serve as an indicator of current and forthcoming investment spending. These orders have shown a rather fitful development throughout the current expansion. Their recent sluggish movement generally corroborates the results of the survey of investment plans.

On the side of optimism, the strengthening of sales near the end of last year may dissipate the hesitation of some investment planners. Retail sales in the fourth quarter grew at an annual rate of 13 percent compared with a rate of 5 percent during the third quarter. The surge in December was the largest monthly increase in four years. A rebound in the automotive sector, which had been depressed by strikes and other factors, contributed heavily to the increases in both November and December.

The sales increase, and the complementing jump in the Conference Board's index of consumer confidence, may convince corporate executives that the consumer can be, and indeed has been, reactivated. This, along with more details concerning the proposed fiscal stimulus, may help bring such executives one step closer to the point of making commitments for new investments in order to meet the markets of the future.

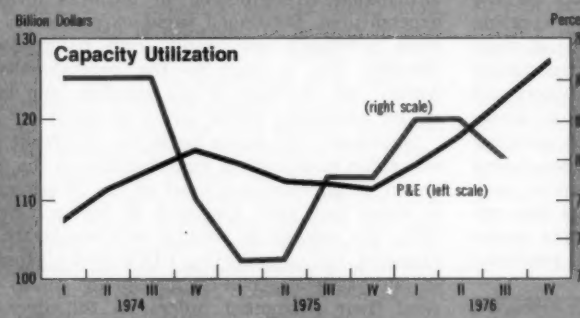


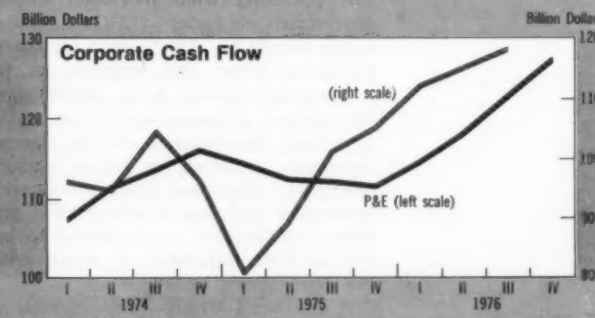


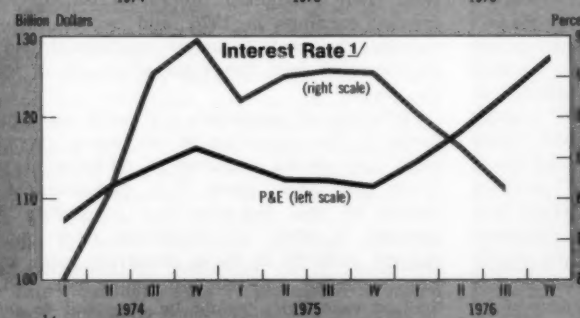
Percentage Changes in Investment by Industry, 1975-77

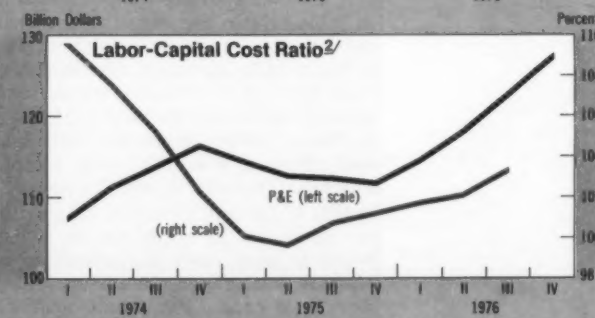
	1976-77	1975-76
Manufacturing		
DURABLE GOODS		
Transportation Equipment	29.4	13.7
Machinery (Excl. Electrical)	11.1	11.6
Electrical Machinery	10.9	14.2
Primary Metals	5.3	-1.7
Stone, Clay, Glass	4.5	17.7
NONDURABLE GOODS		
Rubber	27.4	9.0
Paper	16.0	17.8
Petroleum	13.4	11.7
Textiles	11.3	26.5
Chemicals	9.2	7.6
Food, Including Beverage	6.4	19.8
Nonmanufacturing		
Air Transportation	26.1	-27.9
Public Utilities	14.1	11.4
Communication, Commercial and Other	11.4	3.7
Mining	11.0	4.7
Railroad	10.5	-7.8
Other Transportation	-28.6	12.9

Comparison of Plant and Equipment Expenditures with:









1/ Yield on Moody's AA Corporate Bonds.
2/ Average hourly earnings in the private nonfarm sector divided by the implicit price deflator for fixed nonresidential investment; both indexed so that 1975-IQ = 100.
Sources: U.S. Department of Commerce and U.S. Department of Labor.

U.S. Trade Forecast For 1977:

IMPORT SLOWDOWN, EXPORT PICKUP

A continuation of the upswing in world economic activity will assure another expansion in U.S. foreign trade this year. Current indications are that the growth in exports and imports will be closer in percentage terms, with imports likely to decelerate considerably from last year's 25 percent rise and exports likely to climb at a somewhat faster rate than the 6 percent of 1976. Nevertheless, the resultant trade balance will continue in deficit, and by a larger amount than the approximately $6 billion of last year.

An acceleration in exports of manufactured goods and industrial materials is expected to result primarily from increased shipments to the developing countries (LDCs). The oil-exporting LDCs should be able to step up the pace of their purchases from this country as transportation bottlenecks continue to be alleviated and increased oil revenues allow some of these nations to intensify their development efforts. Improved external payments positions in many non-oil developing countries, stemming from stronger export performances and last year's higher prices for primary commodities, are expected to bring a recovery in U.S. shipments to those areas, reversing the past year's decline.

A somewhat stronger expansion is also projected in shipments to the industrialized markets abroad, even though economic growth in those countries is likely to be moderate, and in some cases slower than last year. The anticipation of a pickup in sales is based on the fact that the 1977 growth in these foreign economies will generally bring real output to new high levels, whereas last year's expansion merely reflected recovery to previous peaks. If foreign industrial nations undertake policy measures to encourage investment spending, which in most cases is expected to remain rather sluggish this year in the absence of incentives, U.S. exports of capital equipment could benefit.

At present, it appears that all of the export increase will derive from nonagricultural sales since, based on current world agricultural conditions, the value of farm shipments will probably not show an increase.

Although U.S. economic activity is expected to gain momentum from the modest GNP growth rates achieved in the third and fourth quarters of 1976, it is likely that the rate of growth in imports will be considerably below that of last year. Most forecasts indicate that, on the average, the rise in consumer spending will be slightly less and that only moderate increases will occur in the rate of inventory accumulation. A pickup in capital goods imports is likely, however, stemming from the anticipated strengthening in business investment expenditures. Continued rapid expansion in petroleum purchases will result from rising domestic demand, due in part to the exceptionally cold winter and shortage of gas supplies, and in spite of the announced OPEC price increases.

Machinery will again be in the forefront of the expansion in exports of manufactures in the months ahead. It appears that most of the 10 percent rise in value last year consisted of higher prices. In 1977, the growth in volume will accelerate if, as expected, the oil-exporting LDCs step up their rate of purchases, the non-oil developing countries expand their equipment orders on the strength of greater earnings in 1976, and capital investment spending in certain industrial markets abroad shows improvement over the depressed levels of the past two years.

Deliveries of computers and parts were a major factor in the expansion in machinery exports last year, and should continue to advance at a relatively fast pace, given U.S. technological superiority in this industry and expanding foreign demand. If OPEC oil production rises and development activity in those countries gains momentum, sales of construction equipment and well-drilling machinery would be expected to pick up. The sharp 33 percent climb in shipments of electronic components posted in 1976 may not be

matched, but some expansion in exports of these products is likely as demand grows for the consumer products which utilize these parts.

The forecast of another good year for automotive sales in this country bodes well for U.S. exports of automotive products to Canada. Production of Canadian vehicles is projected to remain at high levels to satisfy U.S. demand, necessitating larger U.S. exports of parts for assembly. Growth in aircraft exports may resume as a result of a projected rebound in deliveries of military planes and further expansion in parts shipments. Deliveries of civilian aircraft, however, will probably decline for the third consecutive year. Demand abroad for wide-bodied passenger transports, which had boosted exports earlier in the decade, is expected to remain weak.

Chemical sales should benefit from the rise in general economic activity in foreign countries, although the expansion in the value of organic intermediates and plastic materials, whose recovery fueled much of last year's climb, is likely to be more moderate in the months ahead. The upward trend in paper exports should continue as demand in Western Europe strengthens. Economic developments in the United States' major steel markets—Canada, Latin America, and the Near East—may result in some increases in steel shipments in the coming months. Any step-up in world demand for steel could also stimulate increases in sales of coal and steel scrap.

The outlook for little change in the value of agricultural exports is based on prospects for some increase in volume over last year's record level, coupled with slightly lower average prices. With record wheat supplies available this year from greater production here and abroad, U.S. exports of that grain are expected to decline again. Sales of corn may also drop if, as expected, the USSR reduces purchases sharply and the average export price is below the 1976 level. On the other hand, last year's drought in Western Europe will generate a pickup in corn shipments to that region. A sizable increase is projected in exports of soybeans, since demand for foreign animal feed remains strong and prices have risen as a result of tighter supplies. Likewise, cotton exports are expected to climb under the stimulus of increased textile mill activity abroad, competitive U.S. prices, and lower exportable foreign supplies.

Increased purchases of petroleum will continue to add substantially to the expansion in U.S. imports this year. The growth will result from rising U.S. demand and an average increase in OPEC prices of around 8 percent. Lower levels of domestic production of crude oil will also probably continue until the receipt of Alaskan supplies, now expected to begin in the fourth quarter. The volume of natural gas imports from Canada will remain at the 1976 level, but the value of these purchases will be at least 12 percent higher, based on announced price increases. Small amounts of liquefied natural gas will continue to arrive from Algeria, but the start-up of large-scale imports is possible by the end of the year.

Arrivals of other industrial supplies will also expand considerably, although at a somewhat slower rate than last year's 17 percent. This deceleration will primarily reflect relatively little inventory rebuilding compared to that in 1976. The advance in industrial materials imports is expected to be led by continued growth in receipts of steel and other primary metals. Higher prices, expansion in auto production—perhaps to record levels—and a belated recovery in demand for heavier plates, structurals, and pipes from the capital goods sector are expected to boost steel imports in 1977. Increasingly tight domestic capacity will necessitate a further rise in aluminum purchases from abroad. Despite increased requirements, imports of copper, however, are projected to decline following a buildup of inventories last year.

Arrivals of lumber, chiefly softwoods from Canada, are expected to advance further, reflecting the continued upward trend in residential construction. Woodpulp imports should also continue to recover, but receipts of Canadian newsprint will expand modestly in volume, following the rebuilding of stocks in 1976 and increased emphasis on conservation measures in the newspaper industry. In response to continued high demand for plastics and organic compounds, chemical purchases should rise, but the expansion will be less than last year.

Consumer goods imports will grow much more slowly than the 35 percent rise recorded in 1976. Imports of passenger cars from U.S. subsidiaries in Canada should advance at rates comparable to those of last year. Because of large stocks currently on hand, auto imports from other countries, however, are expected to show little, if any, increase. Receipts of consumer electronics should slow considerably from the 60 percent advance of the past year, even though imported products, partly drawn from stocks, are projected to absorb most of the growth in the U.S. market in 1977.

With the considerable upturn now anticipated in business expenditures on capital equipment, imports of machine tools and industrial machinery should rebound and purchases of trucks, office equipment, and electronic components should continue to rise. Thus, capital goods could be the one major import category to show an accelerated rate of growth.

Some further expansion in arrivals of foods and beverages is expected, with much higher average prices for coffee which will remain in short supply. Additional growth in sugar import volume is likely to result from decreased domestic production. Meat imports, however, will slow substantially as a result of voluntary agreements with major exporters which limit increases in beef shipments to this country to about 4 percent over 1976 levels.

Current indications are that imports will decelerate while exports are likely to climb at a somewhat faster rate than in 1976.

This forecast of U.S. foreign trade for 1977 was prepared by the Commerce Department's Office of International Trade Analysis. Kent Barker and Thomas Sobotta of that office authored the report. Current economic conditions and the outlook for U.S. trade in the majority of countries with which U.S. firms do business are presented on Pages 6-48. The 68 regional and country summaries are based on up-to-the-minute reports from U.S. Foreign Service posts and other sources. Data on U.S. trade with selected countries not detailed in separate articles are provided in tabular form on Page 48.

CANADA

Modest Economic, Trade Gains Are Anticipated In New Year

Canada's economy is expected to continue to gain slowly through the first half of 1977 with some acceleration toward year's end, according to Kenneth Fernandez of the Bureau of International Commerce. Trade is expected to follow a similar pattern, with Canadian purchases of capital equipment and consumer durable goods lagging while the demand for services and light consumer goods advances more rapidly.

Third quarter gross national product, seasonally adjusted at annual rates, rose 2 percent, reaching U.S.$191.3 billion. Real GNP in constant (1971) dollars rose just 0.8 percent. This slight increase followed a sharp rise of 2.7 percent in real terms during the initial quarter and zero increase during the second. Real growth for the year is expected to total about 4.8 percent. Heavy inventory accumulation followed by liquidation, rising personal expenditures, a low rate of capital expenditures and an ailing construction industry have been among the primary economic factors influencing this uneven growth rate. Inventories in the third quarter showed an accumulation of $351 million compared with a liquidation of $482 million in the second and a big advance of $1.79 billion in the first quarter.

Statistics Canada reported that conditions during the third quarter were similar to those which have occurred over the past 12 months. During this period the economy averaged a quarterly growth rate of about 1 percent. Although this growth rate is somewhat below historical standards it has been broadly based. All the major expenditure aggregates except for gross fixed capital formation are above the levels of a year earlier.

Capital spending off

One of the primary weaknesses in the economy has been in the area of capital investment. Corporate before-tax profits are declining relative to the United States while labor costs per unit of output exceed those in the United States. This has been reflected by a general weakness in capital investment outlays over the last year, a condition expected to continue through most of the current year.

A Canadian Department of Industry, Trade and Commerce survey in October of the capital spending plans of 300 companies accounting for two-thirds of Canada's non-agricultural outlays on new buildings, machinery and equipment revealed a planned increase in spending of 12 percent in 1976 over 1975 rather than 23 percent as reported in an April survey.

For 1977, firms expect outlays to increase 18 percent over 1976. These increases in terms of constant dollars will amount to about 2 percent in 1976 and 10 percent in 1977.

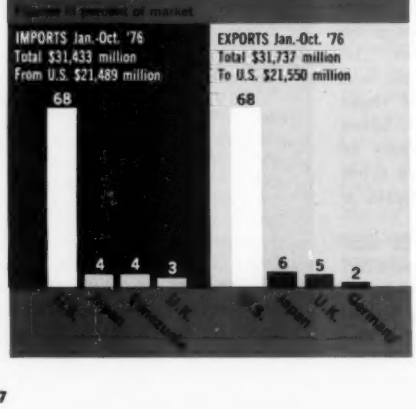
Thus, business confidence has apparently ebbed considerably in recent months. The stringency of profit controls under the anti-inflationary program, introduced in October 1975, has had a restraining influence. These controls plus industrial disputes in the construction industry, a stubbornly high level of unemployment, a sharp drop in direct foreign investment and a period of uncertainty following the election victory of the separatist Parti Quebecois in Quebec in November contributed to the drop in investment spending.

Although prospects for early 1977 are not encouraging, some improvement is expected in the latter half of the year. The Conference Board in Canada is forecasting a growth in GNP in 1977 of 3 percent in real terms as compared with 4.9 percent in 1976. A better price performance, with the end of controls in sight, could help restore business confidence and help accelerate real growth in business investment. The reduction in value of the Canadian dollar which occurred toward the end of 1976 should help to restore the competitive position of Canadian export and import competing industries.

U.S.-Canada trade

January-October imports from the United States of $21,490 million (68 percent of total imports) were up 11 percent in value over the same period in 1975. Imports in most non-agricultural sectors were off from last year's levels during the 10-month period. Textiles, chemicals, non-ferrous metals, agricultural machinery, transportation equipment and electronic computers were among the bright spots.

Canadian exports to the United States during the period January-October totaled $21,500 million (68 percent of total exports), up 19 percent in value from last year. Advances among industrialized goods have been rather spotty, with most of the gains being registered in basic commodities. Significant gains were made in exports of metal ores, concentrates and scrap, natural gas, wood and paper, newsprint and other forestry products, chemicals and fertilizers during the January-October period.



Investment down

Foreign direct investment in Canada during January-June was at a low level—$49 million as compared with $376 million in the same period last year. Canadian direct investment abroad was considerably higher at $218 million, but was also off from the 6-month figure for 1975—$340 million. Relatively high per unit labor costs vis-a-vis the United States, the implementation of Phase II of the Foreign Investment Review Act pertaining to the review of proposed new foreign investments to determine whether they meet the test of being of "significant benefit" to Canada, as well as shifting profit guidelines under the Anti-Inflation Program (AIP), have had negative influence on the level of foreign as well as domestic investment in Canada.

Some improvement may be expected in the latter half of 1977, as the Canadian economy reacts to a U.S. recovery and business anticipates the phaseout of AIP controls.

In Quebec, demand remains high for U.S. construction equipment and supplies, builders' hardware, housewares, home decoration products and maintenance products. Exporters may also find possibilities for process control instrumentation equipment, motors, generators, measuring, monitoring and controlling devices, and miscellaneous fabricated metal products.

Interest in Quebec should continue high for educational and training consumables, giftware and premiums for advertising and promotional use.

In British Columbia, the emphasis on capital investment has changed from spending on expansion to repair and modernization, and U.S. equipment may have sales opportunities. An increase in new housing starts should provide some opportunity for U.S. exporters of consumer durables.

Alberta provides a rapidly growing market for U.S. goods and services and in general is very receptive to new foreign investment. Areas which appear to have particularly good potential for U.S. suppliers are earthmoving equipment, environmental testing devices, process control instrumentation, transportation equipment, and pipeline materials.

LATIN AMERICA'S IMPORT LEVELS SHOULD CONTINUE TO INCREASE

Outlook Is Encouraging For U.S. Sales

U.S. exports to Latin America are expected to reach $18.3 billion in 1977, an 8 percent increase over the 1976 level of $17 billion. U.S. sales are projected to increase in all countries of the area except Brazil, Guatemala and Jamaica, according to Irene Johnson of the Bureau of International Commerce.

The best markets for U.S. products are in Venezuela, Mexico, Colombia and, to a lesser extent, Ecuador and the Central American Common Market (CACM). A slight decrease is predicted in U.S. exports to Brazil. The Dominican Republic and Trinidad and Tobago, the first and second largest markets in the Caribbean, are estimated to increase significantly. Generally, it is expected that the United States will maintain its share of the market in most countries.

U.S. exports to Venezuela are forecast to rise by 15 percent to approximately $3 billion. Increased consumer spending as a result of higher international oil prices and greater investment programs for development expenditures will require increased amounts of goods and technology imports.

Sales to Colombia may reach $810 million in 1977, a 15 percent increase. Booming coffee prices have produced an alltime high in foreign exchange reserves. This is a very attractive market for U.S. exporters, especially since imports are being liberalized.

U.S. shipments to Mexico will probably continue at about the level of 1976 during a period of readjustment in the country's economy after devaluation and austere curtailment in foreign and domestic investment. Mexico plans to hold down all possible imports while allowing raw materials, capital goods and essentials to enter. Despite these restrictions, however, the United States will continue to supply Mexico with a wide variety of products in 1977.

U.S. exports to the Central American Common Market will probably grow by 8 percent to a total of $1.6 billion. The economies of the CACM should grow at a healthy rate as a result of high earnings from traditional agricultural exports.

U.S. exports to Brazil are expected to decline to $2.65 billion, a 9 percent loss. This reduction is due to implementation of import restrictions to improve the balance of payments position and the large trade imbalance with the U.S.

U.S. shipments to Ecuador are expected to rise by 13 percent to $450 million. Ecuador will benefit from higher oil prices as well as favorable world prices for cococa and coffee, which should enhance its import capacity. Sales to Bolivia are estimated to rise by 10 percent to $160 million, as imports of capital goods and raw materials are expected to increase substantially.

U.S. sales to Chile are expected to increase by 16 percent to $570 million. Chile is adhering to its program of reduction in trade barriers, both tariff and non-tariff, and is showing modest but definite signs of greater strength.

Peru has imposed tight import and credit controls and U.S. exports in 1977 may show little gain.

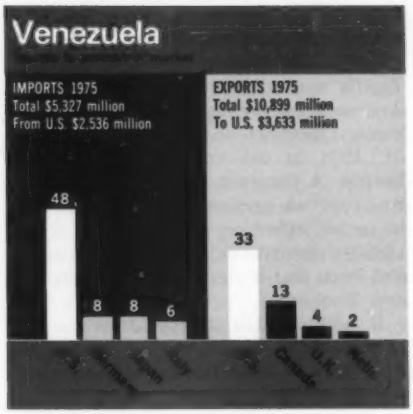
The projection for U.S. sales to Argentina is $560 million, a 10 percent increase over 1976. The Argentine economy is expected to recover in 1977 from the recession, bringing general economic and trade data back to traditional levels.

U.S. shipments to the Caribbean are predicted to rise 11 percent to a total of $2 3 billion. The Dominican Republic, the largest country in the area, will continue development plans requiring the importation of goods from the United States. Trinidad and Tobago's economic growth continues and, along with the Bahamas, should be a good market for U.S. consumer goods. Jamaica's economy is stagnating further and imports will be greatly reduced.

Overall view of prospects

Latin America's total imports will continue to increase, reflecting some inflationary trends and the growing need for raw materials and capital goods. The economies of most of the countries of the area are expected to show improvement in the first half of 1977. There is continued interest in U.S. investment in the area, particularly in manufacturing, which accounts for nearly 40 percent of total investment.

Commerce's export promotion program in the area will be increased this year. Several events are scheduled for the U.S. Trade Center in Mexico City. Plans to open a new Trade Center in Sao Paulo are on the drawing board, with the first event expected in September. A new exhibition facility will be erected for the opening event of the new two-year "Sell in Venezuela" marketing campaign. Several U.S. exhibitions covering many product lines are scheduled in 1977 and 1978. Other markets will receive coverage through trade missions, technical sales seminars and catalog shows.



ANCOM

Withdrawal Of Chile Presents New Challenge

The Andean Common Market (ANCOM) countries will face their greatest challenge during 1977 as they adjust to the withdrawal of Chile from ANCOM and seek new agreements on sectoral industrial development programs, according to Herbert A. Lindow of the Bureau of International Commerce.

Chile withdrew formally from ANCOM on Oct. 30, after Chile and the other five members failed to reach agreement on foreign investment and tariff issues. The unresolved differences between Chile and the five centered on Chile's desire to attract foreign investors under much less restrictive conditions than those acceptable to other members, and Chile's request for relatively low import tariff levels, particularly with respect to ANCOM's projected Common External Tariff levels.

In withdrawing from the group, Chile renounced nearly all rights and obligations under ANCOM.

Chile is going ahead with its plans to attract foreign investors by offering equal treatment with domestic investors and no strict requirements for phasing down foreign investment to minority ownership. At the same time, Chile, a market of $1.6-$2 billion, will continue to liberalize trade by gradually reducing import duties.

After Chile left, Bolivia, Venezuela, Colombia, Peru and Ecuador agreed on new investment and tariff cutting deadlines. They also agreed to liberalize the Andean Investment Code. This included raising from 14 to 20 percent the annual permitted profit remittances by foreign investors (as a percentage of net registered capital); permitting individual governments to approve higher profit remittance levels; and allowing an increase

from 5 to 7 percent in the annual permitted rate of automatic reinvestment.

New tariff cutting deadlines were set. Tariffs are to be eliminated on intra-Andean trade by Dec. 31, 1983 for Venezuela, Colombia and Peru and by Dec. 31, 1988 in the case of Ecuador and Bolivia. A Common External Tariff is to be approved by Dec. 31, 1978 and is to be in full effect no later than the end of 1983 in the case of Venezuela, Colombia and Peru and the end of 1988 for Bolivia and Ecuador.

In addition, the five set June 30, 1977 as the deadline for agreement on Sectoral Programs of Industrial Development with respect to automotive vehicles, steel, electronics and fertilizers, and Oct. 31, 1977 for additional Programs.

U.S. exports to ANCOM (excluding Chile) are projected to rise to $4.91 billion in 1977 from an estimated $4.34 billion in 1976.

Venezuela—This is by far the principal market for U.S. goods in ANCOM. In 1975, Venezuela imported goods valued at $5.327 billion, of which $2.536 billion came from the United States, giving U.S. suppliers a 48 percent share of the market. During the past three years, Venezuela's total imports and U.S. exports to that country have almost doubled. Although the spectacular boom period appears to have peaked, U.S. exports to Venezuela should continue to expand at a more moderate 10-15 percent rate annally over the next five years. This projected growth rate is tied to work on Venezuelan infrastructure development plans, private industry expansion plans, and increased consumer spending.

During 1977, construction of the Caracas subway, a new railroad, and expansion of the existing industrial plants should spur the demand for construction machinery, building materials and relevant capital goods. In addition, new Venezuelan Government credits to agricultural banks, coupled with government emphasis on developing the agricultural sector, continue to make the country a good market for agricultural machinery and equipment.

For 1977, the U.S. Department of Commerce will sponsor three major exhibitions in Caracas: process controls (July); metalworking (August); and telecommunications (September). In addition, there will be a plastics production equipment technical sales seminar (May), pollution control equipment catalog show (July), and automotive repair and service equipment trade mission (September).

Colombia—U.S. exports are projected to reach $810 million in 1977, up from an estimated $705 million in 1976. The Colombian economy is continuing to enjoy the financial benefits derived from booming world coffee prices. Foreign exchange reserves of close to $1 billion are at an alltime high. Imports are being liberalized, and import registrations increased by 10 percent in 1976.

Commerce trade promotion events include: plastics production equipment technical sales seminar (May); printing and graphic arts catalog show (June); pollution control catalog show (July); petrochemicals trade mission (August); automotive repair and service trade mission (September).

Colombia should be an increasingly attractive market for U.S. exporters over the next several years.

Peru — U.S. exports are expected to show little gain in 1977. In 1976, U.S. exports amounted to $580 million, and a total of $600 million is projected for 1977. Due to balance of payments problems, Peru has imposed tight import and credit controls. However, the longer-term outlook is better, with best opportunities for sales in connection with major government projects in mining, mineral and oil refining, communications, irrigation, and medical equipment. The Department of Commerce has scheduled a mining and construction machinery trade mission (August), and there will be official U.S. participation in the Tenth Pacific International Fair in November. U.S. firms interested in exhibiting should contact Robert A. Kohn, Commercial Attache, U.S. Embassy, Apartado 1995, Lima 1.

Ecuador—U.S. exports amounted to an estimated $400 million in 1976 and should increase to about $450 million in 1977. Ecuador continues to benefit from favorable international oil prices as well as from high prices for coffee exports. The best export opportunities for U.S. suppliers are in the areas of agriculture, including irrigation and land reclamation, electric power generation and transmission, water supply, transportation facilities, health care, cement plant expansions and basic steel producing facilities. Commerce plans a technical sales seminar for plastics production equipment (May) and a catalog show for printing and graphic arts (June).

Bolivia — U.S. exports have expanded steadily in recent years and are expected to amount to $160 million in 1977. Bolivia's balance of payments was expected to be in surplus in 1976 with net foreign exchange reserves at $178 million, one of the highest levels ever. With the Bolivian Government's ambitious plans for large-scale industrial infrastructure and social development projects under the Five-Year Plan, and increasing access to foreign financing, imports of capital goods and raw materials as well as foreign technical and managerial know-how may increase substantially during the 1976-80 period. Commerce plans trade missions on mining and construction machinery and equipment (July) and petrochemicals (August).

ARGENTINA

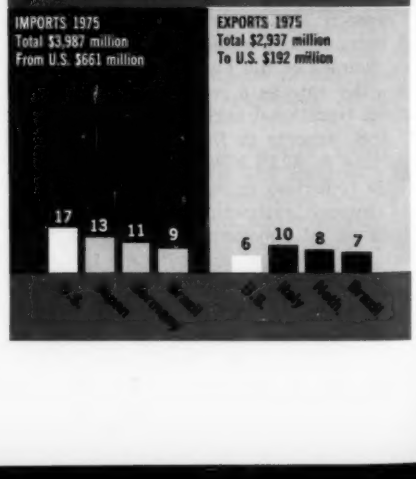
Government Acts To Reduce Its Involvement In Economy

General economic and trade figures in Argentina appear to be returning to traditional levels, according to Carlos Poza of the Bureau of International Commerce. In 1977, total imports are projected to be in the vicinity of $3.5 billion, while U.S. exports are expected to regain a 16 percent share of the market, at around $560 million. These figures would represent slight increases over the 1976 levels, which were down considerably from record highs the year before.

For the first time in years the levels of growth and consumption will be established by the market, not by government action. The policy of the new government emphasizes decentralization, and a reduction of government participation and interference in economic matters.

An active policy to reduce government involvement in the economy will have numerous and favorable implications. A smaller state machinery would mean a lower budget deficit, which should help reduce or control inflationary tendencies. More companies in private hands and less under government control should imply more real competition, higher levels of efficiency and productivity, and more intense bargaining between labor and management to establish realistic and fair wage levels.

Two of the major economic problems of 1976 seem to be under control in 1977. Inflation between March 1975 and the same month in 1976 was 560 percent, and from March to the end of 1976 the rate was around 250 percent. Even though it will remain as an economic problem, inflation figures for 1977 are expected to be under 100 percent. This condition is obviously a good distance away from price stability, but still a considerable



improvement over past inflationary rates.

A $1.1 billion trade deficit in 1975 was turned into a surplus of about $800 million in 1976. This surplus made possible specific actions in favor of trade liberalization: elimination of the 40 percent prior deposit requirement, and more flexible regulations for acquiring authorization to import. If the present trend continues, considerable cuts in import tariffs are likely during 1977.

The government has decided to settle all commercial transactions through the free market exchange rate, abandoning the previous system of a mixture of 85 percent free market rate and 15 percent official exchange rate. This action should encourage exports and discourage imports through the price mechanism, as, in effect, it has devalued the Argentine peso.

Also for the purpose of promoting exports, the Argentine Government has reduced some export taxes and eliminated others. Argentine export policies are relevant even for American exporters, as the import liberalization plan of the government will be directly dependent on the performance of Argentine exports in world markets.

Another highlight of the Argentine economic situation is the new Foreign Investment Law, promulgated Aug. 13. One of the most liberal laws of its kind in Latin America, it not only tries to clarify ambiguities of previous legislation, but also provides incentives and guarantees to attract foreign investors. Some of the topics covered by the law are repatriation of profits, types of investments (definitions), regulations applying to the different areas for possible investments, credit, reinvestment incentives and alternatives available to economic authorities in the event of emergencies. The law shows that the present government is aware of Argentina's need for foreign capital, and the conditions that stimulate capital inflows.

International organizations like the IMF, the World Bank, and the Inter-American Development Bank, as well as commercial banks in the United States, Western Europe and Japan, have carefully studied and evaluated the combination of economic policies of the new government. Organizations in both categories have praised the policies and their results in the most practical of ways, by granting loan guarantees to support the national plans.

The World Bank in a report published in September shows that the bottom of Argentina's recession was reached in 1976, and forecasts economic growth rates of 4.5 percent in 1977, 5.7 percent in 1978 and around 5 percent in the years 1979 and 1980.

Positive growth forecasts, together with a government favoring free market policies, suggest favorable export and investment opportunities in the next few years. Among the most dynamic fields will be power generation and transmission, chemicals and petrochemicals, oil exploration and extraction machinery, port handling and maintenance equipment, steel foundries and rolling mills, shipbuilding and shipboard equipment, and metalworking and finishing machinery and equipment.

BRAZIL

Government Combats Inflation, High Current Account Deficit

Brazilian imports in 1977 will probably remain around the estimated $12.2 billion level of 1975 and 1976, perhaps rising to $12.5 billion. Imports reached an all-time high of $12.5 billion in 1974, but since leveled off due to balance of payments problems. The United States has about a quarter of the Brazilian import market, so Brazilian imports from the United States will be around $3 billion in 1977, adds Larry Garges of the Bureau of International Commerce.

Brazil imports 80 percent of its petroleum needs, and petroleum now represents close to a third of total imports. Leaving aside petroleum, the United States accounts for about one-third of all other Brazilian imports. The U.S. share is expected to remain at about the current level in spite of continued efforts on the part of Brazil to diversify its foreign markets, and utilization by Brazil of credit facilities negotiated during President Geisel's visit to Europe and Japan in 1976, which will have some trade diversion effect.

Major concerns in 1976 were inflation and the balance of payments. Brazil has the largest current account deficit of any developing country.

Inflation, 34 percent in 1974 and 30 percent in 1975, rose to about 50 percent in 1976. Growth in money supply in 1975, planned at 30 percent, reached 42 percent, tripping off the high inflation in 1976. The government exercised a tight money policy in 1976, after the first quarter, and the inflation rate declined in the fourth quarter.

On the balance of payments front, the government hoped to reduce the trade deficit dramatically, from $3.5 billion in 1975 to about $1 billion in 1976. This aim was not achieved, as the trade deficit for 1976 was in the $2.5 billion range, in spite of good export showings by coffee, soybeans and iron ore. (Coffee exports for the first 10 months of 1976 were down 14 percent in volume but up 100 percent in value.) But with sizable improvement in the trade balance, the current account balance fell from a deficit of $6.7 billion in 1975 to an estimated $6.4 billion in 1976. The deficit was more than covered by capital inflows, so that Brazilian foreign reserves apparently have risen substantially. At the same time, of course, Brazilian foreign debt rose significantly, from $22 billion at the end of 1975 to an estimated $27-$28 billion a year later.

Economic growth, 4 percent in 1975, rose to an estimated 8 percent in 1976, more than the government wanted with its accompanying inflation.

In a further important effort to combat inflation and reduce the current account deficit in 1977, the government announced in November a cutback from planned government spending in 1977 of over $3 billion, or about 25 percent. This measure, assuming the current tight money policy is continued, could reduce inflation in 1977 to 30-35 percent.

For 1977 the economic growth rate will probably drop again to the 4 percent area, while the current account deficit will remain high and foreign debt will continue to rise. Further progress is likely in reducing the trade deficit.

Accompanying its announcement on the spending cutbacks, the government named high priority sectors in which expenditures are expected to show increases in real terms this year—petroleum, steel, non-ferrous metals, fertilizers, chemicals, paper and cellulose. The new measure has thus fallen most heavily on infrastructure projects, such as roads, railways, shipping, port construction and communications, Other losers whose expansion plans for 1977 were cut back are the National Bank for Economic Development, the National Housing Bank, and the Federal Savings Bank.

Besides the above-mentioned high priority sectors, other areas providing good opportunities are metalworking equipment, process control instrumentation, pollution control equipment, avionics and aviation ground support equipment, mining equipment, plastics industry equipment, and health care equipment.

Caribbean Imports

Period		From world	From U.S.	U.S. share
		$ millions		%
Bahamas	1975	2,233	268[1]	12[1]
Dom. Rep.[2]	1975	769	453[3]	59[1]
Jamaica	Jan.-Aug. 1976	622	229	37
Trin. & Tobago	1975	1,495	325	22

[1]Partly estimated.
[2]F.o.b.
[3]U.S. exports to the Dominican Republic.

CARIBBEAN

Projects In Trinidad Offer Best Markets

Overall growth in U.S. exports to the Caribbean will increase moderately in 1977, with Trinidad, the Dominican Republic and the Bahamas presenting attractive opportunities, reports Fred Kayser of the Bureau of International Commerce. Trinidad's buoyant economy, growth with sound planning and ample finances should attract much attention from U.S. business in 1977. The Dominican Republic, with a sizable but manageable foreign exchange deficit, will be able to continue its development plans, but Jamaica's economy continues to deteriorate with little improvement likely.

Trinidad and Tobago — This economy continues strong and is the fastest growing U.S. market (though the Dominican Republic remains the largest) in the Caribbean, with a 20-25 percent increase in imports from the United States expected in 1977. Local crude oil production rose to 225,000 bpd by mid-1976, while refinery throughput and sugar production returned to traditional levels. Most manufacturing and the agricultural sectors increased production. Deft handling of oil revenues decreased inflation.

In May, the Trinidad dollar was tied to the U.S. dollar at the ratio of TT $2.40=U.S.$1.00, lending stability to trade with the United States. Imports nearly doubled between 1973 and 1975.

The industrialization program, embracing additional cement and fertilizer production, petrochemical ventures and related infrastructure, calls for engineering, design, consulting and process technology services, as well as plant and equipment. There is a good market for raw or bulk U.S. agricultural commodities for reprocessing. Health care, industrial safety and pollution equipment should also enjoy strong sales. Light manufacturing, processing and assembly industries are protected by a "negative list" of imports.

Dominican Republic — Economic performance was off in 1976, with a significant though manageable balance of payments deficit. Foreign borrowing capacity will support imports for continued economic growth. The sharp 1976 decline in sugar prices, continued electric power outages and an inflation rate of 10-12 percent are principal problems for 1977. Government emphasis on tourism includes a $4 million improvement in docking facilities, while the private sector plans almost $35 million in tourist complex developments. Other port and airport improvements are planned. Extensive construction of electricity generating projects and dams is being initiated.

U.S. exports should increase about 15 percent in 1977. Direct sales opportunities lie in water and sewerage equipment, irrigation systems, pumps, centrifuges, valves, agricultural machinery and equipment, equipment for food processing, construction and office supplies, plus fats, oils, chemicals, pharmaceuticals, paper products and hardware. Consumer items are imported under quota and require a central bank license.

Bahamas—The U.S. market share of non-petroleum imports is continuing to increase substantially. Several major projects will provide excellent one-time export opportunities in 1977. These involve a TV station to be installed in 1977, a convention complex, and food processing and packaging equipment for foodstuffs and fish. Communication and broadcasting equipment, building supplies, hardware and fixtures, and refrigerating, chilling and condensing equipment are needed. Markets for U.S. consumer items remain strong.

Jamaica — The economy is still deteriorating but one optimistic factor is that world demand for bauxite and alumina improved in late 1976 and may fully recover in 1977. Otherwise, the country suffers poor production levels and prices for agricultural and manufacturing exports, a sagging tourist industry, no new foreign investment, severe unemployment, crippling oil import prices and a heavy foreign exchange deficit. Imports, down 14 percent in 1976, may drop further in 1977. Wage demands and labor unrest are increasing. Permitted imports are food, machinery and transport equipment, and essential manufactured goods.

Haiti—This continues to be a good market for U.S. food products. Most other exports are tied to the government's infrastructure projects, financed largely by international lending agencies. Successful bidding on such projects as roads, ports and agricultural improvements is the key to this market.

Netherlands Antilles—Any upturns in tourism and foreign investment will improve this market. Otherwise, established markets for U.S. consumer items plus the ongoing need for maintenance and replacement goods for ports and refineries will keep United States exports at present levels.

CENTRAL AMERICA

High Export Earnings Impel Healthy Growth

The Central American Common Market (CACM), comprised of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, has rebounded from the adverse conditions which affected the region in 1974 and 1975. In 1976, earnings from agricultural exports such as cotton, coffee and beef rose sharply. Expected continuation of these high earnings should impel the regional economies to grow at a healthy pace in 1977, according to Walter M. Bastian of the Bureau of International Commerce.

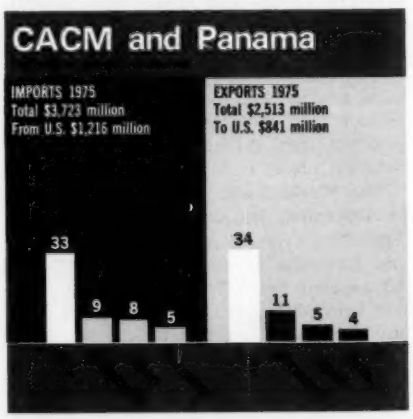
The CACM remains an attractive market for U.S. exporters. During the first ten months of 1976, United States exports to the CACM and Panama increased 16 percent.

This year should see increased U.S. exports to Central America and Panama though at a more conservative pace as world commodity prices stabilize somewhat.

The regional economic scene has improved during the last year. The five Central America countries' GDP growth rate, only 2-3 percent in real terms in 1975, achieved 5-6 percent in 1976 as a result of high commodity prices and substantial capital inflows on both private and public account.

Guatemala — The earthquake which struck this country in early 1976 has caused a greater interruption in economic activity than originally thought. Estimates of overall real economic growth for 1976 have been scaled down to 6 percent.

Guatemala was expected to end 1976 with close to $500 million in foreign reserves. Government price indexes indicate that the overall price rise for 1976 was about 15 percent. The record-setting budget proposed for 1977 guarantees substantial economic growth, especially since



almost half will go for capital or investment expenses.

El Salvador — Available information indicates that El Salvador's economy grew strongly in 1976, about 6 percent in real terms. The export sector should continue strong in 1977, led by coffee. Increased export receipts should stimulate local consumption and investment. While inflation in 1976 approached 10 percent, the trade surplus through September indicates the possibility of the first surplus on current account since 1972.

Costa Rica—Various factors indicated substantial economic recovery in 1976. Especially reassuring was the marked improvement in the balance of payments situation. Foreign reserves, as of September, stood at $140 million. Inflation appeared under control. The trade deficit during the first six months of 1976 was down 49 percent from the similar period of 1975. Costa Rica was expected to achieve a real growth rate of 4-5 percent in 1976.

Honduras—The outlook for Honduras is bright, generated by factors generally affecting all CACM countries. There has been a strengthening of the agricultural sector following the natural disasters of the past two years. GDP growth rate was expected to reach 5 percent in 1976.

Nicaragua—This country's economy, in response to record export earnings, began to pick up steam early in 1976 and in the second half showed solid economic growth which should continue through 1977. The economic growth rate, 6.5 percent in real terms in 1976, is expected to be 7 percent in 1977. Consumer prices in 1976 rose at less than 4 percent.

The following product categories appear to offer the best U.S. export opportunities to the CACM: agricultural machinery and equipment, food processing machinery and equipment, health care equipment, communications equipment and systems, energy systems and building and construction equipment and supplies.

Panama—a sluggish economy

Panama, while not a member of the CACM, maintains close ties with that organization through participation in a large number of CACM institutions.

Panama's economy was sluggish in 1976, following a further decline during 1975 in real growth of Gross Domestic Product (to 1.7 percent). A wait-and-see attitude on the part of private investors has contributed to a substantial decrease in construction activity, with the government not taking up much of the slack. However, agriculture enjoyed its best showing in some time during the 1975-1976 crop year. Yet, near drought conditions in several provinces threaten production, especially of rice.

Prospects for U.S. exports are expected to continue to be good over nearly all the range of consumer and capital goods, owing to Panama's heavy reliance on imports.

MEXICO

Industrial Investment Stressed In 'Alliance For Production'

Mexico will be an excellent market for a wide variety of U.S. products in 1977, according to Frederick J. Tower of the Bureau of International Commerce. The market is expected to grow despite the major readjustments in the country's economy which will be taking place, especially because of the effect of the floating parity of the Mexican peso and a new presidential term which started Dec. 1.

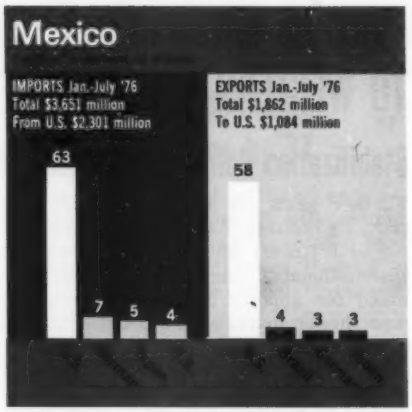
The floating of the peso announced on Aug. 31 resulted in a decline from the 22-year fixed rate of 12.50 pesos to U.S.$1, to a low of approximately 28.50 pesos to the dollar in November. Recovery of the peso had been steady up to recent days, with the rate in late December and early January at about 20 pesos to U.S.$1.

Figures for the first 10 months of 1976 show that manufacturing industry output was up in the first quarter, began to slow in the second, and declined strongly in the third, with no improvement trend at the end of the period. Retail sales were up 16.4 percent during the first 8 months of the year, compared with a 26.8 percent rise for like months of 1975. Sales were up much more in September, spectacularly so in some categories.

In his inaugural message, President Jose Lopez Portillo called on the nation to unite in a national and democratic "alliance for production." This involves a turning around of the economy to include new policies on profits, prices, salaries and taxation.

An excess profits tax, designed to reward efficient producers, has been put into effect concurrently with a personal income tax revision which exempts approximately 70 percent of wage earners from payment of any tax. Wage increases have been held to 10 percent for those earning less than 100 pesos a day, with increases of 9 percent for those earning more. This is in addition to an increase in October intended to compensate for the effects of the devaluation which gave those earning less than 10,000 pesos per month a 23 percent rise in income.

Prices were higher last year, with further increases in prospect for 1977. Wholesale prices of products not under price control climbed between 10 and 20 percent, while price tags on some imported items as well as those with high import content rose between 40 and 60 percent. Credit terms have been generally tightened, with higher down payments being demanded and stricter selectivity being exercised. Retailers themselves have taken to paying cash in order to give suppliers incentive for quick delivery and adherence to price schedules.



The alliance for production announced by President Lopez Portillo involves future investment plans by industry of 250 billion pesos (U.S. $12.5 billion) over the next 6 years, in order to create up to 800,000 new jobs. Agreements were reached with representatives of ten industrial sectors on plans for expansion in their fields, with commitments by government to facilitate the private sector effort in various ways. An example is the opening up to industry of more petrochemical production areas previously reserved to the state.

The IMF extended fund facility agreement signed in October means that Mexico will now have three years in which to reestablish external and internal equilibrium, avoiding more restrictive measures which would drastically affect production and employment. The 1977 budget, billed as austere and non-inflationary though larger than last year's, also appears to emphasize production and employment rather than a contractionary policy.

These policies augur well for U.S. sales of drilling and mining equipment, metalworking machinery, food processing and packaging equipment, plastics, rubber and chemical equipment, electronics industry production and test equipment and electronics components.

Promotional events at the U.S. Trade Center in Mexico City are designed to open up promising markets to U.S. exporters; events are scheduled for medical equipment, plastics production equipment, furniture manufacturing equipment, graphic arts industries, electronics production and test equipment, textile machinery and computer and peripheral equipment. In Guadalajara, an agricultural equipment exhibition is scheduled this year.

FURTHER GAINS IN U.S. EXPORTS TO WESTERN EUROPE FORESEEN

Stabilization Policies Being Implemented

Further gains are foreseen in U.S. exports to Western Europe in 1977, according to J. Robert Wilson of the Bureau of International Commerce. Although demand for imports is currently weak in some major markets, the overall rate of export expansion is expected to equal or even exceed the rate of 7 percent achieved in 1976, when U.S. exports to Western Europe passed the $30 billion mark.

Most of the European economies have been in the recovery phase of the business cycle for at least a year. However, the recovery not only lacked initial strength but has lost much of its momentum. In most countries industrial production has not yet regained previous peak levels; this implies that there is considerable room for further expansion, at least in the near term. Economic growth will be slower than in 1976 except for oil-rich Norway, where a substantial increase is expected, and Finland, Sweden and Switzerland.

Gains in industrial production that have occurred have not been accompanied by significant increases in employment. Although the recessionary practice of short-time working schedules has ceased, many employers have been reluctant to take on new workers. Consequently, unemployment, especially among the youth, has remained dangerously high.

Another major problem

Inflation is another major problem. Switzerland is the only European country that has conquered inflation—Swiss consumer prices rose only 1 percent in the 12 months to October 1976. German inflation was reduced substantially—from 6 percent to 3.8 percent. Britain's incomes policy helped to pare the rate of inflation from 24 percent to 15 percent but higher import prices resulting from the sharp depreciation of the pound have inhibited further reductions. Italy and Spain, with current inflation rates of about 20 percent, are the major exceptions to the general, albeit modest, easing of European inflation.

Government policy makers have the challenging task of devising monetary and fiscal policies that will stimulate economic growth and employment without rekindling inflation. Furthermore, their options are circumscribed by precarious balance of payments positions, which will be further worsened by the recent OPEC oil price increase. If existing stabilization policies are successfully carried out in Britain, Italy and France, there is reason to look forward to an improved economic climate which will inspire confidence and generate investment by the business community. Particularly encouraging is the growing realization on the part of organized labor that its wage demands must be moderated for the common good. In Britain, agreements between the government and the trade unions setting ceilings on wage increases have been in effect for a year and a half. The International Monetary Fund on Jan. 3 granted Britain a two-year loan totaling $3.9 billion and on Jan. 10 the Bank for International Settlements arranged a stand-by credit of $3 billion to support the British pound.

The Italian Government is carrying out a comprehensive austerity program designed to promote stable growth and external equilibrium. The budget deficit is being reduced by increases in taxes and in prices for public services. Interest rates are being kept high and the growth in the money supply is being slowed down. The government is also seeking to curb the exceedingly high rate of wage increases. Most workers receive increases in their wages automatically when the cost of living index rises. The lira has stabilized at a level representing a devaluation of about 20 percent since the beginning of 1976.

In September the French Government introduced an anti-inflation program, which included a temporary price freeze, tax changes and measures to encourage investment and external equilibrium. Increases in costs of production have been the principal source of persistent French inflation, which has been running at the rate of nearly 10 percent for a long time. The increasingly unfavorable balance of trade has also been a cause for concern on the part of French authorities.

Outlook is generally positive

Although the summer slowdown in the rate of expansion in Germany has made some forecasters leery of predicting vigorous growth in 1977, the outlook is generally positive. Four of the five leading German economic research institutes expect the GNP to grow 5.5 percent in real terms and imports to increase 10.5 percent. They anticipate continued fast export growth and a marked revival of domestic demand. The Organization for Economic Cooperation and Development, in its semi-annual *Economic Outlook* published in December, is less optimistic. A progressive weakening of the overall demand situation in 1977 is foreseen, with the rise in real GNP tapering off to 3.5 percent.

Since European economic policies rely heavily on export expansion, the generally positive development of world trade is encouraging. After a pause in 1975, world imports have resumed their upward trend. For the most part, severe restrictions on imports have been avoided or are of a temporary nature. The Spanish import surcharge of 20 percent is scheduled to be eliminated in April 1977. Similarly, Italy's deposit system is gradually being relaxed and will be abolished entirely in mid-April. U.S. exports to Italy increased in 1976 despite the deposit system.

Although the European Economic Community has done little lately to advance the cause of European integration, it has preserved the liberal trade regime for non-agricultural goods and has reached agreement on several measures to remove barriers to trade, at least internally. Last year saw the approval of a package of 18 directives for harmonizing industrial standards and a directive to liberalize public procurement throughout the Community. The latter excludes a number of important industrial sectors, particularly telecommunications and, until 1981, electronic data processing.

Completing the customs union

In the beginning of July the EEC will complete the customs union with a common external tariff for its nine members. Britain, Ireland and Denmark, which joined the Community in 1973, have gradually been adjusting their tariffs, downward in many important cases, to conform with the common tariff of the original six members.

European affiliates of U.S. companies will continue to expand their plant and equipment in 1977. While the press tends to focus on the increased direct investment by Europeans in the United States, the most notable example being the Volkswagen plant in Pennsylvania, American investment in Europe is still at a high level. As reported in the September *Survey of Current Business*, capital expenditures by U.S. affiliates in Europe in 1977 are estimated at $12.1 billion, an increase of 4 percent over 1976. Eighty-five percent of these expenditures are by affiliates in the European Economic Community.

The U.S. Trade Centers in London, Paris, Stockholm and Milan will continue to assist American exporters in exhibiting their products abroad. In Germany, the Frankfurt U.S. Trade Center has been replaced by the International Marketing Center in Cologne, which will emphasize assistance to American participants in major German trade fairs.

BELGIUM

Recovery Stagnated Last Year But Stronger Growth Is Seen

Assuming that the Belgian economy strengthens this year, U.S. exporters should find trade opportunities in a number of product areas, observes Grace Haskins of the Bureau of International Commerce. Belgium's economic recovery stagnated in the second half of 1976, causing its real GNP growth estimate for the year to be revised downward to approximately 2.5 percent or $67 billion. Prospects for 1977 are for a stronger growth of 3.5-4.5 percent, boosted primarily by sustained exports, increases in private residential construction and public spending, and a pickup in household incomes.

New plant and equipment investment in 1976 was estimated at $6.8 billion, down 5.5 percent from the recession year of 1975. In 1977 industrial investment may rebound somewhat, but it is expected largely to take the form of plant restructuring to displace labor rather than to expand capacity, since utilization of plant capacity remains low at 77 percent.

New foreign investment in 1976 in Belgium was estimated to be down in real terms from the already low levels of 1975. The U.S. share appears to be dropping even faster relative to the total and may not have exceeded $50 million in 1976.

According to the Organization for Economic Cooperation and Development (OECD), domestic costs in Belgium (estimated at 80 percent labor) have been rising faster than export prices. Since Belgium's exports are nearly half its GNP, the implication of this trend for business profits, new investment, and thus the general economy are disturbing.

Inflation continues as Belgium's most pressing economic problem, with consumer prices rising at an 8.3 percent annual rate in 1976. Nonetheless, this rate marks an improvement from the 11 percent rate in 1975. The government is working to fight inflation by reducing the national budget deficit and planning for negotiations with labor to continue at least partial controls on income and salary increases. Inflation and the government's budget difficulties have also meant higher business taxes. Both present and potential American investors should thus be watching in 1977 for signs of Belgian progress toward economic expansion and price moderation which could serve to improve the general business climate.

Unemployment is also a problem for Belgium. At the end of 1976 the unemployment rate was 8.6 percent, and little improvement in the situation is likely through 1977.

U.S. exports to the Belgium-Luxembourg Economic Union (BLEU) are expected to increase in 1977 at a slightly higher rate than BLEU imports generally. U.S. exports to the BLEU in 1976 are estimated to be almost 20 percent higher than in 1975. The favorable outlook for 1977 is in part due to the dollar's depreciation against the franc during 1976. The Belgian franc has appreciated 7 percent against the dollar since January 1976, thus enhancing the competitiveness of U.S. goods. U.S. trade statistics also show the BLEU as a remarkably consistent market for U.S. products, taking a steady 2.3 percent of total U.S. exports every year, 1970-75.

The overall BLEU balance of payments has been running at a slight deficit, estimated for 1976 to be $380 million. Both imports and exports should grow only moderately in 1977.

Demand is already growing for U.S. labor-saving machinery due to high wage costs in Belgium. Government public works programs are continuing at a relatively high level, with particular emphasis on public health and educational infrastructure, thus offering opportunities to relevant U.S. exporters. A predicted increase in household disposable income in 1977 should also benefit U.S. suppliers of consumer goods, particularly durables. In addition, the summer drought in Belgium has created new opportunities for U.S. agricultural exports. Other markets which appear promising in 1977 are those of avionics, metalworking and finishing equipment, laboratory and pollution control equipment, selected building supplies, business equipment and electronic components.

To take advantage of opportunities, Commerce is sponsoring a catalog exhibition of industrial, scientific and medical laboratory instruments at INSTRURAMA, March 30-April 5, as well as trade missions for computer-aided business systems in March and food processing and packaging equipment in May.

FRANCE

Recovery Seen Continuing But At Slower Pace In '77

The current year will not be an easy one for the French economy. It will continue its recovery, but at a slower pace than in 1976, according to Grace Haskins of the Bureau of International Commerce. Industry will move toward fuller capacity utilization, and some revival in U.S. sales of machinery, instrumentation and other sophisticated equipment needed for expansion is likely. U.S. exports to France in 1976 probably have increased significantly over the 1975 depressed levels, and improvement should continue through 1977.

The rate of growth in real GNP is predicted by the French Government to be 5 percent in 1977, but may only reach 3 percent above the 1976 level of $360 billion. This rate reflects the less rapid growth in internal demand that is likely due to recently imposed economic austerity measures.

Although government expenditures have been restricted, private consumption continues to increase at approximately 4 percent, thus aiding in the recovery process. The money supply, which grew 17 percent in 1976, will be cut back in the current year; however, no severe dampening of the economy's upward movement is expected. Industrial production in 1976 regained its peak 1974 level (the industrial production index reached 151 in 1976 against 100 in 1967, the base year), but it is expected to increase at a slower rate in 1977—probably not at all during the first half, then increasing during the second half at an annual rate of 5 percent. Although the estimate of 1976 industrial investment has been revised upward to 3-4 percent, signs point to a reduction in industrial investment in 1977 by as much as 2 percent.

The number one objective for 1977 will continue to be the fight against inflation and unemployment. The rate of inflation is forecasted to slow from a level of 10-11 percent in 1976 to 7-8 percent in 1977. Unemployment should remain around the million mark for the entire year.

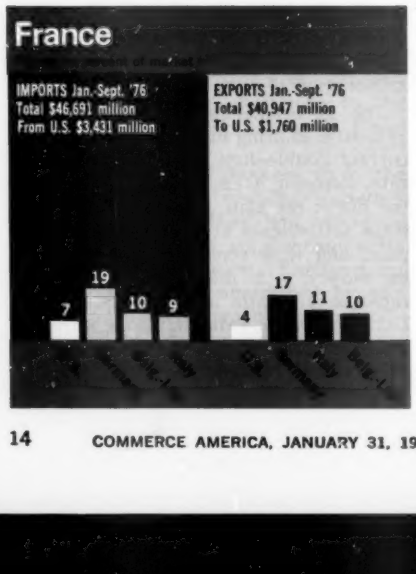
The government's economic plan for 1976-80 is to bring inflation down from the current double-digit range to a 6 percent rate, implying a 7.5 percent average over the life of the plan. However, with recent wage settlements at a 16 percent annual pace, and with economic recovery moving slowly, it is difficult to foresee any rapid or dramatic improvement in 1977. Last September, Prime Minister Raymond Barre initiated a plan to pull France out of economic "stagflation." This plan included an income-tax surcharge, a sales

tax cut, a three-month price freeze, a reduction in the money supply, and a plea for wage restraint. The freeze on prices was replaced on Jan. 1 by a new ruling which will allow enterprises the freedom to set their own prices but under closely monitored conditions.

Much depends on how the economy, and French voters, respond to this ambitious plan. Success of this program should also help correct France's balance of payments problem, which resulted in a $2.3 billion deficit on current account by the end of the third quarter of 1976. The implication of the deficit is that it may put pressure on the French Government to try to hold down imports in 1977.

Unless there is external relief in the form of abatement on energy and raw material prices, French prices are unlikely to prove very much more manageable in 1977. Continuance of high inflation rates could give further impetus to the already strong flow of direct investment capital from France to the United States (1974=$760 million, 1975=$1,077 million). American firms interested in an infusion of French capital and technology or in joint venture or licensing arrangements with French companies could benefit substantially from this trend.

American product lines which will enjoy the best sales performance in 1977 are advanced business equipment; laboratory and process control instrumentation; selected consumer lines, notably children's wear, do-it-yourself tools, towels and sheeting; high technology energy systems and components; educational and industrial training equipment, including visual aids; and environmental control equipment. Most of the above items are either directly or indirectly related to labor-saving techniques, which are essential to the success of France's program to improve productivity. To ensure that U.S. firms will be able to take advantage of market opportunities in France, the Commerce Department has planned a full schedule of exhibitions at the United States Trade Center in Paris during 1977.



GERMANY

Prospects For U.S. Exports In '77 Appear Favorable

The turnaround in U.S. trade exchanges with Germany, which in 1975 gave the United States its first bilateral surplus since 1970, accelerated in 1976, according to Velizar Stanoyevitch of the Bureau of International Commerce. The U.S. share of the German import market through September stood at 8 percent, unchanged from a year earlier, but our surplus had more than doubled. If German imports of petroleum and petroleum products are excluded, the U.S. market share would have been nearly 9 percent. U.S. exports to Germany in 1975 were valued at $5.8 billion (c.i.f.); through 1976, they are likely to have substantially exceeded $6 billion.

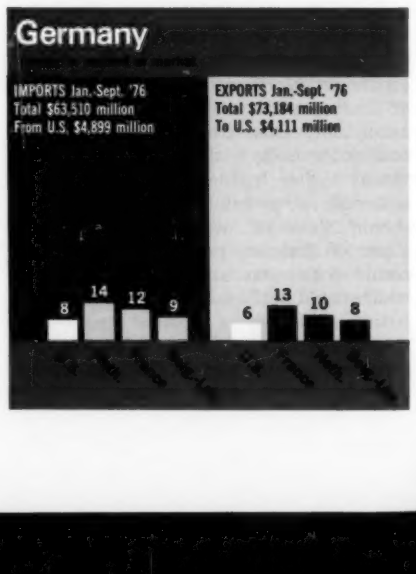
Preliminary indications are that while the United States' traditional export categories to Germany—agricultural products, raw materials and semi-finished products—all registered moderate declines, finished manufactures—particularly office machines, agricultural machinery, electrical equipment and paper products—registered very substantial gains. Sales of aircraft were down and motor vehicles up, portending further changes in the composition of the U.S. export mix to Germany.

Prospects for U.S. exports to Germany this year appear favorable, in spite of the very gradual pace of German economic recovery from the most severe recession of the post-war period in 1974/75. Real GNP growth rate of 5.5 percent is anticipated for this year, compared to 6.2 percent in 1976. Overall German imports are expected to rise between 15 and 16 percent in current prices. Some of the fundamental factors which helped make American goods competitive in Germany last year are likely to be present this year as well. The mark has appreciated approximately 11 percent against the dollar, between year-end 1975 and year-end 1976. Moderation displayed by German labor in 1976 may not hold this year, even though the rate of inflationary price increases, as measured by their equivalent of our consumer price index, has slowed down to an annual rate of less than 4 percent. Again, according to preliminary indications, the greatest incremental gains in U.S. sales to Germany should be realized with meat and meat products, oil seeds and cake and raw tobacco, in the agricultural sector, and aluminum, including alloys, chemicals, rubber and metal scrap in semi-finished categories. Packaging and materials handling equipment, plastics and photochemicals should also be well received.

For the second year in a row, the United States appears to have attracted the largest share of German private foreign direct investments, ahead of the Low Countries, France and Switzerland. This was certainly the case in the first half of 1976, when German direct investments in the United States grew by nearly $0.25 billion, exceeding, for the first time in the post-war period, the flow of U.S. private direct investments to Germany. Favorable exchange parities, no less than lower energy and production costs in a number of industry sectors, helped to bring this about.

Among the legacies of the 1974/75 recession is persistent industrial and white collar unemployment, approaching 5 percent of the labor force. Budgetary deficits, as a result of vastly stepped up social insurance and unemployment payments, do not leave the government in Bonn much room for maneuver for any pump priming. With similar conditions in other European Economic Community member countries, such as Britain, France, and Italy, which are Germany's principal trading partners, it is difficult to see a resolution of these problems without cooperation and coordination of economic and monetary policies by major industrial powers. In the absence of such concerted action, the possibility of another recession cannot be ignored, even disregarding the virtual certainty of further escalation of energy and various materials costs.

Opening of the first International Marketing Center abroad by Commerce this month in Cologne reflects the Department's new emphasis on direct participation by American manufacturers and exporters at select major industrial trade fairs. Thus, Commerce's Office of International Marketing will sponsor American group exhibits in Cologne and Hanover. The February fair, in Cologne, will feature housewares, including appliances and refurbishing aids; the June event, in Hanover, medical and hospital equipment; and the September fair, in Cologne, sports apparel and equipment.



ITALY

Economic Stabilization Plan Key To Country's Future

Basis for a moderately optimistic forecast exists for U.S. trade with Italy in 1977, according to Ann Corro of the Bureau of International Commerce. The economic outlook seems brighter in Italy, although recent austerity measures enacted might retard economic growth in exchange for an improved inflationary rate and balance of payments position. Elimination of the deposit regulation and surtax on foreign exchange transactions in the first four months of 1977 should have a favorable effect on U.S. exports.

After a negative growth rate in 1975, once again the resiliency of the Italian economy has been demonstrated in the registering of an estimated 5 percent real GNP growth rate in 1976. Industrial production for the year is expected to rise by 11 percent, making Italy the only major industrialized country to recover its pre-recessionary industrial production levels. Among sectors with marked percentage increases were textiles, up 16.8 percent; chemicals, 13.5; food processing, 10.2; non-ferrous metals, 7.2; motor vehicles, 6.8; and metallurgy, 6.8.

As a consequence of stepped-up economic activity, devaluation of the lira spurred Italian exports by an estimated 34 percent. Increased OPEC oil prices will have a deleterious effect on the trade balance in 1977. Due in part to capital inflows, an overall balance of payments deficit of $2.5 billion was expected for 1976, down from $3.6 billion in 1975.

An Economic Stabilization Program now in effect is designed to bring inflation down to an acceptable level, to improve the balance of payments, to lower private consumption in an effort to curb imports, to moderate large government budget deficits, to reduce unit labor costs, and to shift resources to investment and export stimulation.

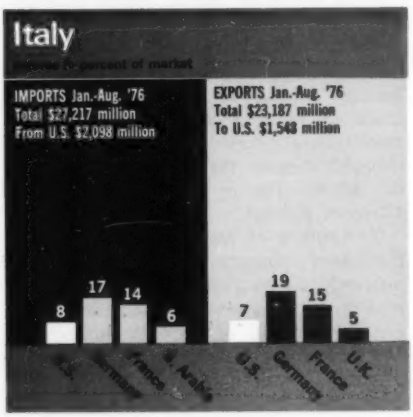
Specifically, an additional 2.5 percent of gross domestic product or over $5 billion will be absorbed from the income stream through additional taxation and higher prices for public services and energy in 1977. Elimination of five religious holidays and moving two state holidays to Sunday to counteract Italy's high rate of absenteeism has been approved. One hundred percent of cost-of-living increases for those earning over 8 million lire ($9,500) and 50 percent of cost-of-living increases for salaries of 6-8 million lire ($7,000-$9,500) will be converted into 5-year Treasury bonds. This freeze is to be in effect for 18 months, ending in April 1978. Funds transferred to the Treasury in exchange for bonds will be used to provide incentives for productive investments.

In the labor area, concrete proposals have not been finalized, pending discussions between labor and management, with the government the final arbiter. Areas of consultation are related to the need to improve work productivity, to modify the wage escalation clause for wage increase restraint, partially fiscalize social benefits now borne by management and achieve greater labor mobility. These issues are of critical importance and must be resolved if the government's stabilization program is to succeed.

Another development which may portend a channeling of welcome investment capital into Italy is Libya's recent $415 business deal with FIAT for minority ownership in the company. If this transaction proves mutually satisfactory, other OPEC nations may become sources for investment capital in the Italian market. As a further example, Venezuela has promised to lend Italy an unspecified amount of money and to give preference to Italian groups in construction projects. Meanwhile, Italian engineering and construction firms continue to receive numerous contracts for major projects in OPEC countries.

Generally, U.S. equipment with high technological capability and offering labor-saving qualities will find a receptive market in Italy. Product areas of special promise include: printing and graphic arts advanced equipment, to compensate for continuous increases in labor costs and to satisfy the steady growth in the market for reading matter; industrial process controls equipment, to meet increasing demand for frozen, pre-cooked and processed foods; EDP equipment of advanced technology, to satisfy strides in the mechanization of the domestic industry; and metal finishing and surfacing equipment plus advanced machine tools, to supply the important metals industrial sector in Italy.

The following exhibitions will be held at the U.S. Trade Center in Milan during 1977: EDP, computers and data communication in May; industrial training aids and audio-visual equipment in June; noise and vibration control equipment in September; and food processing and packaging equipment in October.



NETHERLANDS

Recovery In Investments, Gain In Exports Are Goals

As the Dutch economic recovery progresses, U.S. exports should continue to expand, Grace Haskins of the Bureau of International Commerce reports. Continued growth in exports, and a recovery in investment are two of the primary objectives of the Netherlands Gove.nment in 1977. Real GNP, which grew about 3.5 percent in 1976 to an estimated $88.6 billion, is expected to increase 4 percent in 1977. The government's budget for 1977 aims to improve the business climate and, as a result, U.S. exports to the Netherlands are expected to increase 10 percent in 1977.

The price of imports rose between 7 and 8 percent in 1976 and it is predicted that this rate will continue in 1977. Although domestic demand may rise only 2.5 percent, an increase of 11 percent is expected in export volume. Thus, with investments down and domestic consumption growing slowly, exports are the only major demand sector that is expanding.

However, if there is a continued growth in world trade, exports, and private consumption, it is expected that there will be a recovery in industrial investments estimated at 8 percent. Housing investments are predicted to increase slightly, and government investment to decline in volume. These economic indicators would result in a production growth of 4.5 percent for industry as a whole, and a slight increase in the number of jobs.

The favorable trend in costs in Holland by comparison with those in other countries makes it very probable that the share of Dutch exports in world trade will be maintained. This is a contributing factor to a slight increase in the surplus on the current account of the balance of payments, in spite of some deterioration in the terms of trade and the recovery in investment which would necessitate more imports.

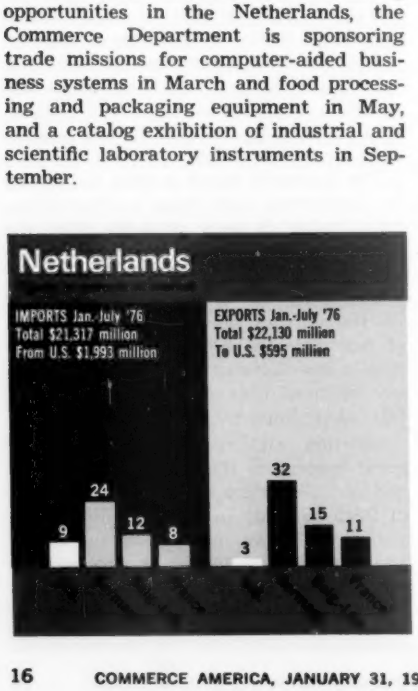
Inflation and unemployment are of great concern to the Netherlands. At the end of 1976, prices had risen at the rate of 9-9.5 percent. In order to limit inflation in 1977, an increase in the value-added tax from 16 to 18 percent was initiated on Oct. 1. Consequently, the Dutch Central Planning Bureau anticipates that inflation will be limited to

6.5 percent this year. On the unemployment side, a rise in industrial production of 4.5 percent would lead to a drop in unemployment from 230,000 to 215,000. At the same time, wage cost increases of 8-8.5 percent are expected.

Because of high labor costs, the Dutch government expects business to concentrate investment on labor saving equipment and systems. This would favor American industrial exports embodying high technology. On the whole, the Dutch have become more receptive to U.S. styles and tastes and are aware of the quality and reasonable prices of U.S. products. Thus, the American exporter interested in diversifying his market and increasing profits will find opportunities in the Netherlands.

Best prospects for U.S. exports to the Netherlands in 1977 are offshore oil and gas drilling equipment, construction and mining equipment, heating and cooling equipment, industrial security equipment, mechanical handling equipment, food processing and packaging machinery, pulp and paper processing machinery, electromedical instruments, electric measuring and controlling instruments, printing and graphic arts equipment, and automotive garage and service equipment. The chemical and electro-technical industries are expected to expand more rapidly than the economy as a whole until 1980, with annual growth rates of 6.5 and 5.8 percent, respectively, thus widening opportunities for U.S. exporters of chemical processing equipment, pumps, valves, compressors, pollution control instrumentation and equipment, laboratory instruments, electronic production and test equipment and electronic components.

To take advantage of these marketing opportunities in the Netherlands, the Commerce Department is sponsoring trade missions for computer-aided business systems in March and food processing and packaging equipment in May, and a catalog exhibition of industrial and scientific laboratory instruments in September.



SPAIN

Despite Recession, Market Prospects Remain Good

U.S. market prospects should remain strong in 1977 despite the persistent economic recession in Spain, according to Ken Nichols of the Bureau of International Commerce. Continued demand for capital goods for basic industries as well as labor-saving equipment and systems should enable the U.S. to maintain its position as the leading supplier to the Spanish market.

Spain's GNP grew to over $100 billion in 1976, although this represented only a 2-3 percent real growth rate. Despite the relatively smooth political transition under King Juan Carlos, the economic situation is in disarray. Spanish voters recently gave overwhelming approval to the government's political reform program starting with 1977 elections for a popularly elected bicameral legislature. The economy, however, remains characterized by high inflation and unemployment, low capital formation, and a chronic trade imbalance.

Inflation is currently estimated at 20 percent, aggravated by sharp wage increases over the past year. Unemployment is officially estimated at 5.5 percent or 700,000 workers. The labor picture has also been disrupted by extensive strike activity as well as the current program to phase out the national syndicates (government-controlled labor / management organizations) in favor of free trade unionism.

Spanish imports reached an estimated $17 billion in 1976, only half of which were covered by export sales. Imports of petroleum (an estimated $4 billion in 1976) have increased and have been primarily responsible for the sharp deterioration in Spain's trading position over the past three years. Recent price increases announced by the OPEC nations can be expected to raise Spain's current accounts deficit, which exceeded $4 billion in 1976.

Traditionally Spain has relied on tourism, emigrant worker remittances and foreign capital to offset its perennial trade imbalance. Tourism and emigrant remittances, however, have remained sluggish despite the improved economies of Spain's major trading partners in Western Europe.

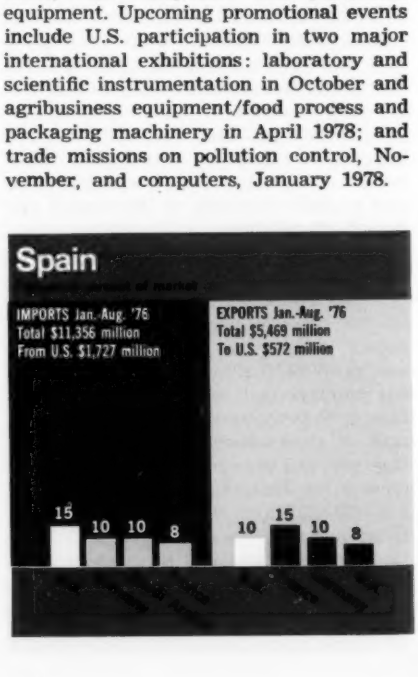
The inflow of foreign capital has also decreased sharply as investors have adopted a cautionary approach. The government, however, continues its liberal treatment of foreign investment. The United States remains the leading foreign investor in Spain with total U.S. direct investment in 1976 reaching an estimated $2 billion. Last year, the Council of Ministers authorized Dow Chemical to construct a $700 million petrochemical complex and Ford Motor inaugurated a $450 million plant near Valencia.

Aside from these developments, however, foreign investment remains stagnant, owing to the general recession and a "wait and see" attitude concerning the political transition. There have been recent indications that the government is considering further liberalization of the 1974 Foreign Investment Code to attract desperately needed foreign capital.

To help finance its payments deficits, Spain has had to turn to foreign capital markets and its own foreign exchange reserves. A number of major foreign loans were negotiated in 1976, including a $1 billion loan from a multinational banking syndicate. Foreign exchange reserves have been drawn down to an estimated $5 billion. Overall, Spain's foreign debt is now some $12-13 billion.

Spanish authorities also devalued the peseta by 10 percent in February and recently imposed a six-month increase in customs duties on a wide range of specialty consumer goods and "nonessential" capital imports. To date, these two developments have had a negligible effect on import demand.

The following product categories offer high potential for U.S. export sales: electrical power equipment, construction, mining and materials handling equipment, health care equipment, process control instrumentation, communications equipment and systems, drilling equipment, production equipment for the electronics industry, food processing and packaging equipment, security and safety equipment, and computers and peripheral equipment. Upcoming promotional events include U.S. participation in two major international exhibitions: laboratory and scientific instrumentation in October and agribusiness equipment/food process and packaging machinery in April 1978; and trade missions on pollution control, November, and computers, January 1978.



SWEDEN

Further Economic Gains Depend On Export Demand

The outlook for the Swedish economy in the first half of 1977 is less optimistic than at midyear 1976. This more guarded appraisal is based largely on the expectation of a slower rate of improvement in world export markets which normally absorb a large share of Sweden's industrial output, reports Albert Caya, Jr., of the Bureau of International Commerce.

The rebound of Swedish industrial production and foreign marketing, anticipated in early 1976, did not fully materialize. Production, on the whole, reached only the levels achieved in 1973. Further growth is now not expected before mid to late 1977.

Production gains, although modest, together with continued government-initiated anti-cyclical actions, buoyed economic confidence enough throughout 1976 that employment was maintained at excellent levels.

Industrial production for the year ahead is expected to increase by about 5 percent above the lackluster 1976 levels, indicating less-than-capacity utilization of resources and a possible slight increase in the unemployment rate.

Further improvement in the Swedish economy is largely dependent on developments in export demand for Swedish products. Swedish industry, however, is concerned with increasing unit production costs propelled by rapidly rising labor rates and sagging productivity levels. It is feared that these developments have eroded the competitiveness of Swedish products in the dominant European and North American markets where Sweden's market shares have flagged appreciably over the last several years. Thus, Sweden's ability to recover ground lost in the 1974/75 recession era remains a disquieting issue.

Swedish exports for the first eight months of 1976 were valued at $11.6 billion which, based on Swedish krona values, was a 10.5 percent increase over the like period of 1975. While on the surface this increase appears to be quite handsome, in reality it masks a less reassuring picture. First, Swedish export prices increased by 9.5 percent in 1976 and second, export demand appeared to wane in the latter half of the year. Thus, government projections for a 13.5 percent increase in exports for 1976 will not be met and a more probable estimate is that exports will be up in value terms by about 10 percent and in volume terms no more than 3-4 percent. Current projections for export performance in 1977 envisage an increase of 10-12 percent over 1976 levels.

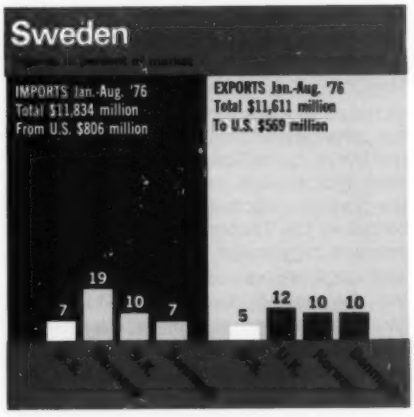
Through the first eight months of 1976, imports grew by 7 percent and were valued at $11.8 billion. Thus, Sweden's balance of trade is estimated to be in surplus by some $57-62 million for the year as compared to a $428 million deficit in 1975. However, this estimate is considered rather optimistic with some Swedish economic institutions projecting a balance of trade surplus of only some $10 million.

Regarding the current account, Sweden's year-end balances are expected to show a deficit of about $1.7 billion as compared to the government's earlier forecasts of $636 million. In total, Sweden's 1976 balance of payments is likely to be in deficit by upwards of $75 million while gold and foreign exchange reserves will be drawn down to $2-2.2 billion.

Exports to the U.S. at year-end 1976 were expected to show an increase of only 4-5 percent over 1975.

Imports from the United States are projected to reach $1.3 billion for 1976, an increase of about 10 percent over 1975 in value terms. In 1977, Sweden is expected to remain a growing market for U.S. goods, particularly in the capital goods sectors. The pace of investment is expected to increase somewhat in the coming year and U.S. technology will be in demand. Among the product groups offering continued good potential are: computers and peripherals; building supplies; construction and material handling equipment; metalworking and finishing equipment; aviation/avionics equipment; electronic production equipment, components and sub-assemblies.

U.S. Government trade promotion activities in the Nordic countries are based largely on the U.S. Trade Center in Stockholm. Major exhibitions scheduled through the first half of 1977 are: hotel and restaurant equipment/franchising, March 14-18; electronic production and test equipment, April 18-21; and high performance materials, May 24-27.



SWITZERLAND

As Economic Stagnation Eases, Imports From U.S. Seen Firm

U.S. exports to Switzerland are expected to increase only slightly above the 1976 level, due to the country's slow recovery from recession, according to Leo Kuus of the Bureau of International Commerce.

The real GNP in 1976 stabilized at the 1975 level of $56 billion and is expected to grow some 0.5 percent in 1977. Various factors account for the stagnation of the Swiss economy. Because of the economy's increasing dependence on exports of goods and services, which had increased in 1975 to 32 percent of the GNP, Switzerland cannot get out of its current recession without increased foreign demand for its exports.

At the same time, Swiss exports are adversely affected by the appreciation of the currency, over 60 percent in the last five years on a trade weighted basis. The appreciation has resulted from Switzerland's political and economic stability. In addition, recessionary trends have further strengthened the Swiss franc with regard to other currencies as the rate of inflation declined from 3.4 percent in 1975 to about 1.2 percent in 1976, while the surplus on the balance of payments current account reached a new high of about $3.5 billion during the year.

The intervention of the Swiss National Bank on the foreign exchange market, the low interest rate policy, and the prohibitive negative interest rates on foreign deposits have not been able to stem the steady appreciation of the Swiss franc. Limits are also set for the stimulation of domestic demand because of the static population and decline of foreign workers who have left the country during the recession.

Under a 1976 referendum the Swiss electorate approved overwhelmingly, until the end of 1978, its government's price surveillance and monetary policy decrees, reflecting the people's confidence in the country's present economic course. There is no disagreement that the curbing of inflation should remain the cornerstone of the country's economic policy despite measures to stimulate domestic demand and encourage the restructuring of production in export-oriented industries.

A decrease in the U.S. share of the Swiss market from 7.5 percent in 1975 to an estimated 6.8 percent in 1976 was in part the result of a reduction in aircraft shipments. The recession in Switzerland seems to have had a strong impact on U.S. exports, offsetting our price ad-

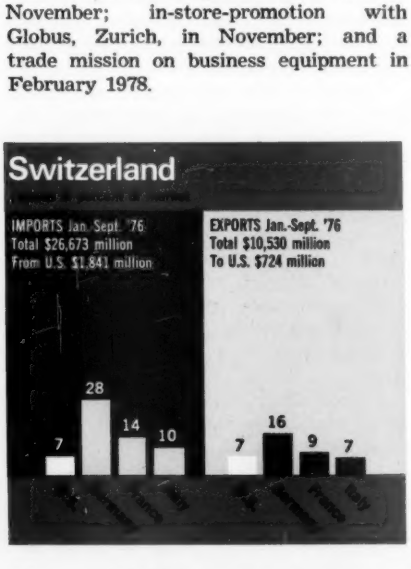
vantages resulting from the appreciation of the Swiss franc vis-a-vis the dollar. In 1977, total Swiss imports are expected to grow at a higher rate than in 1976 and reverse the downward trend of U.S. exports to Switzerland.

The gradual dismantling of custom duties on industrial goods between the EEC and Switzerland will be completed on July 1, as agreed upon in the Free Trade Agreement concluded in 1972. Because of the low Swiss tariffs the preferential treatment accorded to industrial goods from EEC countries can hardly be expected to have serious adverse effects on U.S. exports. Negative effects should be compensated by larger shipments from U.S. European-based subsidiaries to Switzerland. The total value of such shipments to Switzerland is estimated to approach the value of U.S. direct exports.

The bulk of U.S. trade with Switzerland is conducted by local subsidiaries. At the beginning of 1976, Switzerland ranked fifth by value in U.S. direct investments abroad (with some $5.2 billion) being at the same time host to some 640 U.S.-controlled operating companies. The high exchange rate of the Swiss currency does tend to discourage capital outflows from the United States to existing U.S. affiliates or for new equity investments.

Despite the recession, good sales opportunities continue to exist in high technology items, above all in pollution control equipment, business equipment, computers and peripheral equipment, electronic components and process controls.

Commerce Department trade promotional events will include: catalog exhibits on medical supplies (IFAS), Zurich, in June, and industrial electronics (INELTEC), Basel, in September; a technical sales seminar on pollution control in November; in-store-promotion with Globus, Zurich, in November; and a trade mission on business equipment in February 1978.



UNITED KINGDOM

Recovery Outlook Brightens; U.S. Sales Prospects Improve

U.S. exporters of industrial goods to the United Kingdom should find improved opportunities in 1977, as manufacturing output increases to support an export-led recovery and stability returns to the value of the pound sterling as a result of satisfactory loan negotiations with the International Monetary Fund. The modest economic recovery that most observers expected but did not see in 1976 is now looked for in 1977, according to Paul A. Norloff of the Bureau of International Commerce.

Principal factors contributing to the brightened outlook for 1977 are the expectation of a substantial flow of oil from the North Sea, which will significantly reduce the expenditure of foreign exchange for imported oil; an anticipated reduction in the rate of inflation, especially in the latter half of the year; and a larger manufacturing output flowing from increased world trade and government efforts according high priority to expansion of manufacturing investment.

While U.K. exports in 1976 actually achieved record levels, this accomplishment was hidden by the increased cost of imports due to higher prices for commodities and to reductions in the exchange rate of sterling during the year. Many observers attributed the weakness of sterling to very large U.K. public sector expenditures. The government's present plan to reduce public sector expenditures by nearly two billion pounds in the coming year is expected to strengthen sterling substantially.

The outlook for new manufacturing investment in 1977 is enhanced by the government's declared policy to channel funds into inducements for the regeneration of industry, aiming at increased productivity and improved ability to compete successfully in international markets.

The gross domestic product, which grew only slightly during 1976, is expected by the Treasury to increase by about 2 percent in 1977 and 2-3 percent in 1978. Manufacturing investment, however, is expected to grow by some 5-6 percent under government prodding. Consumer expenditure is unlikely to make a significant contribution to GDP growth, since the present voluntary wage restraint embodied in the Trades Union Congress-government agreement provides for only an average 5 percent increase in wages during the period August 1976-July 1977. Since the current rate of inflation is running at approximately 15 percent, disposable income will actually be less than last year's level.

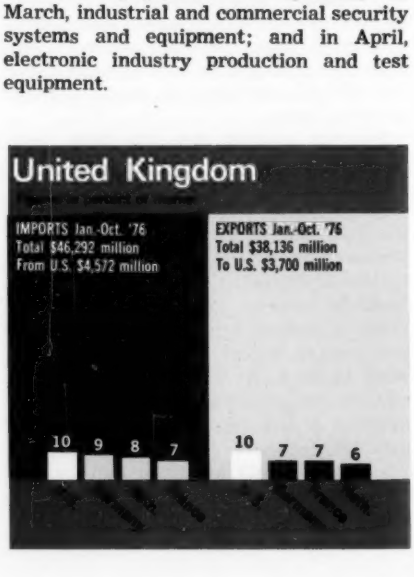
With an anticipated increase in exports of 8-10 percent in 1977, and a depreciation of more than 20 percent in the value of sterling in 1976, the balance of payments is expected to show a reduced deficit of about one billion pounds in 1977 (as compared with about two billion pounds in 1976) and then to move into surplus at about two to three billion pounds in 1978. Such an improvement, which would allow the United Kingdom to reduce the large value of outstanding foreign debt, must depend, however, on a satisfactory rate of expansion in world trade.

U.K. imports from the world in January-October 1976 were valued at $46.3 billion, an increase of about 11 percent over the January-October 1975 total. Imports from the United States during the same period increased by 4 percent, and made up 10 percent of total U.K. imports. U.K. exports to the world in January-October 1976 were valued at $38.1 billion, an increase of some 11 percent over January-October 1975. Exports to the United States increased by 22 percent, and were just under 10 percent of total U.K. exports.

As has been the case for many years, the United States in 1976 ranked as the most important supplier and the most important individual U.K. country market.

On Jan. 1, U.K. tariffs on industrial goods from other than Community members were aligned to 20 percent of the difference between original U.K. tariffs and the Community's Common External Tariff. The final adjustment will be made on July 1, 1977, leaving the applicable U.K. tariffs equal to the EEC's Common External Tariff.

The U.S. Trade Center in London staged an exhibition of data communications equipment and systems this month. In February, the Trade Center will show business equipment and systems; in March, industrial and commercial security systems and equipment; and in April, electronic industry production and test equipment.



AUSTRIA

Economy Progresses, But Cautiousness Is Stressed

Austrian economic progress continues unabated, despite the general slowdown of the international economy, according to the Austrian Institute of Economic Research. Industrial output continues to expand, exports and imports are increasing, retail turnover has picked up, the employment situation has improved further and prices have lessened slightly.

Nevertheless, forecasts for 1977 are rather cautious and Austrian business and industry groups stress the need for improvements in tax and wage policy to avert a deterioration in the country's international competitiveness, Gertrude Oppolzer of the Bureau of International Commerce reports.

Real GNP in 1975 declined 2 percent compared to the previous year. By September, it had increased by 4 percent. An overall increase of 5 percent has been estimated for the entire year of 1976 (about $40 billion) and a 5 percent growth rate is projected for 1977.

Industrial production showed sizable gains in the second quarter of 1976. Output of consumer items grew 9.5 percent and capital goods also reported significant gains.

Growth of imports by 27 percent during January–September 1976 and a rise in exports of only 15 percent resulted in a billion dollar balance of trade deficit. Exports to EEC countries increased faster than those to EFTA countries. Exports to Eastern Europe rose noticeably.

Exports from the United States to Austria rose by 8.5 percent over the previous January through October period and are expected to rise by 8.9 percent for the entire year. A rise of 8 percent is predicted for 1977.

The retail price index increased 7.25 percent between November 1975 and October 1976. Austrian unemployment has declined to 2.1 percent.

American products are well regarded in Austria and the present dollar-schilling exchange rate is very favorable for American suppliers. Strong interest exists for electronic production and test equipment, mini-computers and small business computers; for health care and biomedical equipment; for industrial and scientific instruments; and for earthmoving and road construction equipment. Interest in American consumer goods is increasing and exports in that sector have been rising. There is also demand for joint ventures and licensing agreements.

The Commercial Section of the U.S. Embassy in Vienna is conducting a series of well organized promotional campaigns to increase the interest of the Austrian business community in American capital and consumer goods.

Austria is trading actively with Eastern European markets and participates in various third-country construction projects. This offers an excellent opportunity to U.S. manufacturers to participate in these projects through their Austrian counterparts.

DENMARK

Concerns Include Labor Scene, Balance Of Payments Situation

Economic stagnation is in prospect for Denmark over the first half of 1977, according to Albert Caya, Jr., of the Bureau of International Commerce.

Overall, industrial production in 1976 returned to levels prevailing prior to the economic slump in 1974. In the current year, however, production in all likelihood will stabilize at this level. Export industries are expected to expand production moderately and achieve an 8-10 percent increase in foreign sales. Domestic-oriented industries, conversely, will face a slackened pace, while the construction industry is expected to experience a most noticeable decline. Unemployment, which averaged about 10 percent for the year, may increase to 11 percent as the new year progresses.

GNP is estimated at $43 billion, up about 5 percent over 1975 levels. With the slackening of domestic demand anticipated throughout 1977, only a 3 percent increase in real growth is projected for the current year.

Major concerns facing the Danes are the balance of payments situation and labor restiveness. Through the first nine months of 1976, Denmark sustained a balance of payments deficit of 8,400 million kroner ($1.4 billion). The year-end deficit is estimated to be 10 billion kroner as compared with 3 billion in 1975. Projections for 1977 indicate a deficit ranging from 7 to 9 billion. The lower figure is the current official estimate, which private economic groups consider to be on the optimistic side.

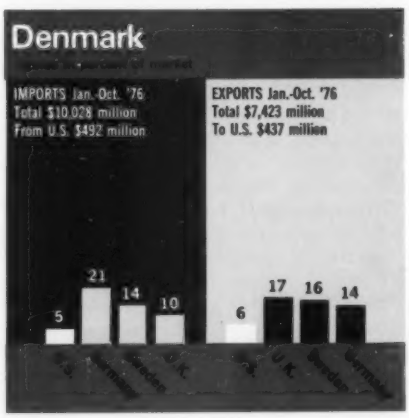
On the labor front, negotiations for a new two-year wage agreement are to be initiated in the next several months. The government is pressing for settlements substantially below the 11-12 percent increases gained in 1976. Labor is seen as most reluctant to accept the degree of wage restraint envisaged by the government, and the talks are expected to be difficult and acrimonious. Should agreement not be reached by March, when the current agreement expires, work stoppages may be expected.

Danish imports are expected to exceed 1975 levels by 26 percent for 1976. This rapid increase in imports and the underlying strong consumer demand for imported goods gives the Danish Government cause for considerable concern. This is particularly so since neither the increase in the value-added-tax to 15 percent (from 9 percent) in March nor the devaluation of the krone in October seemed to have the anticipated dampening effect on import demand.

Based on current estimates, 1976 Danish exports are expected to exceed 1975 levels by 16 percent when 12-month figures are in.

Danish imports from the United States were valued at $437 million in January-October, and were projected to be 14 percent above 1975 levels at year-end.

U.S. sales in 1977 are not expected to increase at the rate achieved in 1976. Sales of construction plywood should be adversely affected by the drop in construction, and consumer goods sales are not expected to be as brisk. Good prospects remain for instruments, electronic production and test equipment, electronic components and sub-assemblies, data processing equipment and peripherals as well as plastic raw materials.



FINLAND

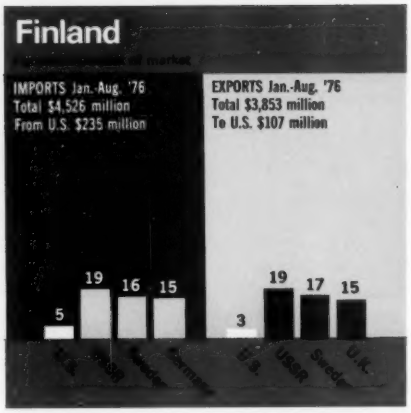
Weak Showing In Major Markets Will Keep Economy In Doldrums

While the slow downtrend in economic activity experienced by Finland over the past two years may have bottomed out in 1976, a strong export-led recovery in 1977 does not appear to be in sight as growth in both Sweden and the United Kingdom, which absorb about half of Finland's exports to OECD countries, is projected to be below average for OECD countries. The effect on the economy of only moderate revival of demand for exports and sluggish activity in investment and construction has been reinforced by a tight monetary policy, instituted to reduce inflation, adds Philip G. Combs of the Bureau of International Commerce.

Real growth in GDP in 1977 is expected to exceed the 0.5 percent experienced in 1976, but is unlikely to achieve an earlier government projection of 5 percent, which was based upon a cyclical upswing and a moderate wage settlement. With recovery lagging in Western European markets, further export growth in 1977 is projected to be weak, following an 18 percent increase in the first three-quarters of 1976 over the same period in the previous year. Finland's largest industry, wood products, is now holding large inventories of finished products with markets showing only slight improvement. Orders are falling off in the shipbuilding and other metalworking industries, and marginal textile firms are being forced out of business. Unemployment, 3 percent or 68,000 workers in October, is expected to rise to a nine-year high of 100,000 in early 1977.

Finnish Government projections assume that wage increases this year can be held to 4 percent, and that consumer prices will increase by 10 percent, considerably more than the expected OECD average. Recent studies show that higher-than-average inflation over the past three years has damaged the competitiveness of Finnish products abroad. Workers in Finland, though, have yet to experience a decline in real income. In 1975, with a drop in GDP of 1 percent, real wages rose 4.5 percent, and in the first three-quarters of 1976 nominal wage increases kept pace with the rate of inflation.

Finland's current account deficit in 1976 is expected to be between 3.9 and 4.1 billion marks ($1,010-$1,062 million) in spite of an invisible trade surplus of 1.5 billion marks. Interest payments on Finland's net foreign debt (23-24 billion marks in October, about one-fifth of GDP) amounted to 2.0 billion marks in 1976 and will rise to 2.5 billion marks this year. Nearly two-thirds of this debt



has been incurred since the beginning of the oil crisis in 1974. Foreign borrowing made possible the net increase in real incomes in 1975 in the face of a decline in real GDP. For 1977, the Finance Ministry has forecast a current account deficit of 2.0-2.5 billion marks.

Despite this gloomy picture, good long-term sales opportunities exist for the United States in the areas of industrial process control equipment, numerically-controlled machinery for metalworking, pollution control equipment (especially for air pollution), and scientific and medical instruments.

NORWAY

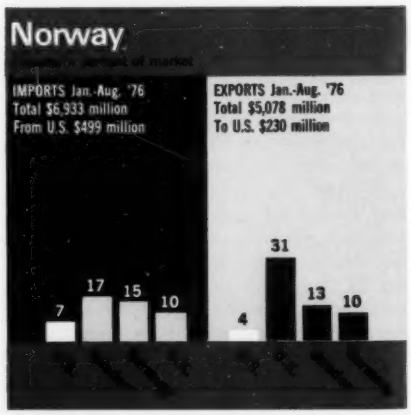
Heightened Economic Growth Should Boost Import Volume

The Norwegian market should afford U.S. firms excellent sales opportunities in 1977, as total domestic demand shifts in composition to more import intensive sectors. In the wake of heightened economic growth in 1977, the import volume of items traditional in Norwegian trade is expected by Philip G. Combs of the Bureau of International Commerce to expand by 8 percent.

Activities in the oil sector continue to be central to the Norwegian economy, with oil exports valued at 3.4 billion kroner ($650 million) in 1975 rising to 7.3 billion kroner in 1976 and expected to reach 15.1 billion in 1977. Investment in oil and related activities has contributed to the current account deficit, expected to widen to $3.5 billion (11 percent of gross domestic product) in 1976 from $2.8 billion in 1975. Other contributory factors include weakness in traditional export sectors as world trade has slowed down, technical problems in keeping oil/gas production at 15 percent below anticipated levels, a decline in freight earnings, and lack of improvement in terms of trade. A reduction in the total deficit (three-quarters of which is accounted for by oil and shipping sectors) to $2.9 billion is projected for 1977, partly due to rising oil/gas exports. Exports of ships and oil rigs are expected to drop sharply, but declining investment in shipping should help reduce the growth of imports. A 5 percent growth in volume of traditional exports is forecast for 1977.

Real GDP is expected to increase by 7-8 percent in 1977, or up to $30.8 billion. Owing to rising oil revenues, the government has not felt constrained by current account deficits (covered by foreign borrowings) or by public sector deficits. Moderate progress anticipated in reducing the low 1.6 percent unemployment figure for 1976 could have been marred late in the year by some rise in unemployment in the shipbuilding and pulp and paper (now holding record inventories) industries. Official projections of an 8.5 percent consumer price increase in 1977 will depend to a considerable extent on the upcoming spring round of wage negotiations. Tax concessions and/or increased subsidies have been offered successfully in the past in exchange for moderation in wage demands. The government goal of an average increase of 2.5 percent in real disposable income of wage and salary earners in 1977 could be achieved, but large increases in farm income, less than rapid growth in productivity, and the possible acceleration of inflation following the year-end 1976 expiration of the "temporary-partial" price freeze, could act to subvert this goal.

Norwegians are increasingly finding the United States an attractive source of supply as they seek labor-saving machinery to help offset growing production cost. Opportunities appear good in computers and peripheral equipment, electronics production and test equipment, electronic components, oil and gas industry equipment, pulp and paper machinery, process control instrumentation, communications equipment, drilling equipment, and consumer goods.



PORTUGAL

Recession Hampers U.S. Sales, But Import Demand Remains High

Major economic problems will continue to limit the market potential of U.S. exports to Portugal this year, according to Ken Nichols of the Bureau of International Commerce. Latest figures indicate that U.S. sales in 1976 were down from the previous year.

Since the 1974 revolution, political and labor unrest has severely crippled the economy. In less than three years, Portugal has seen six provisional governments, four national elections, two attempted coups and dissolution of ties with its African territories.

Under the administration of President Eanes, the Socialist-led government of Prime Minister Soares has attempted to develop a comprehensive economic austerity program to deal with the serious problems of inflation, low productivity, unemployment and the crucial lack of investor confidence.

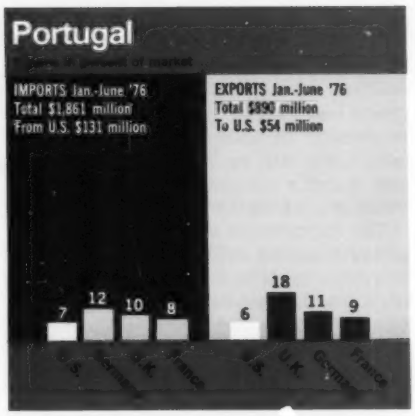
Legislation has also been adopted to improve labor/management relations as well as labor discipline. High absentee rates and excessive strike activity have seriously undermined productivity.

Despite the recessionary economic picture and the decline in U.S. sales, import demand has remained high. Imports now exceed exports by more than two to one. In the first half of 1976, rises were recorded in imports of raw materials, intermediate goods and consumer items.

Under the Soares government, the program of nationalization, under which some 70 percent of Portuguese industry and services were nationalized, has ceased. A few small firms and about 45,000 acres of farm land in southern Portugal have been returned to original owners.

Foreign firms, including the 100-125 U.S. companies, have generally been exempt from any direct intervention. A number of U.S. firms, however, have curtailed or ceased operations due to forced labor settlements, worker takeovers and occupations. Total U.S. investment in Portugal is estimated at $200-250 million.

Although emigrant worker remittances have recently improved, tourist receipts, investment income, and private transfers have declined, thereby further exacerbating Portugal's already deteriorating balance of payments position. Portugal has thus turned to its foreign exchange reserves and foreign capital loans. Foreign exchange reserves dropped to a perilous $128 million in October. The United States, along with a number of European nations and regional organizations, has begun to grant extensive loans and credits.



High potential for U.S. export sales exists in the following product categories: building and construction equipment, energy systems, petrochemical equipment, metalworking and finishing equipment, food processing and packaging machinery, railway equipment, navigation and traffic control equipment, and health care industries instrumentation and equipment. Upcoming Commerce-sponsored promotions include trade missions on business equipment and systems (February 1978) and communications equipment and systems (April 1978).

YUGOSLAVIA

Easing Of Restrictions On Imports Is Expected

As a result of Yugoslavia's success in meeting its targets for foreign trade in 1976, some import restrictions may be lifted in 1977, according to Leo Kuus of the Bureau of International Commerce.

The subordination of economic growth goals to price stabilization, and improvement of the balance of payments position, resulted in a 4 percent GNP growth rate in real terms in 1976. For 1977, a 5.5 percent growth rate is projected.

Due to an elaborate system of price and wage agreements and controls on domestic investments, inflation in 1976 was reduced to about 10 percent, about half the 1975 figure. Additional trade restrictions imposed since mid-1975 have given rise to a small surplus on the balance of foreign trade and services, as compared with an almost $1 billion deficit in 1975.

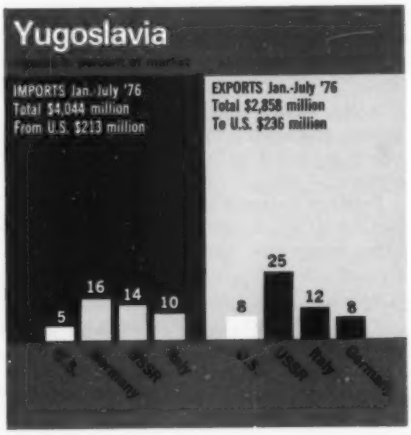
Business confidence in Yugoslavia is high, and Workers Councils and Management Boards are convinced that coordination of present laws with the new Constitution can help to solve such perennial problems as low productivity, unused capacity in some industries, and unsatisfactory allocation of financial resources.

Yugoslavia's trade with the United States, as shown in latest figures for 1976, reflected the overall 16 percent decrease of Yugoslav imports and 41 percent increase in exports in trade with Western countries. This trend was caused by administrative regulations such as counter-trade requirements, and not by any structural changes in the Yugoslav economy. During the first several months of 1976 U.S. exports to Yugoslavia decreased by 20 percent, while U.S. imports increased by more than 50 percent. Our market share remained almost the same, 5.3 percent in 1975 and 5.2 percent in 1976. Reduced exports of aircraft and machinery were mainly responsible for the decline in U.S. sales.

The main impediment to increased U.S. exports is the counter-trade requirement imposed in mid-1975, requiring importers to show that a minimum of 30 percent of the required foreign exchange has been secured for needed imports through offsetting exports. It is hoped that this requirement, which has been extended to international bidding, will be revised.

Under the present Five-Year Plan, priority has been given to the development of (1) energy, especially electric energy through development of non-utilized hydropower potential and soft coal reserves; (2) agro-industry, including food processing, to achieve self-sufficiency in basic agricultural products; (3) mining, to reduce mineral imports; and (4) metalworking and machine tools. Consequently, good opportunities exist in electrical energy systems equipment, agricultural machinery and food processing and packaging equipment, heavy mining equipment and sophisticated machine tools.

The Commerce Department will sponsor U.S. participation at the International Agricultural Fair in Novi Sad (May); technical sales seminars for chemicals and plastics (October) and frozen foods (January 1978).



GREECE

Demand For High Quality, Advanced Products Continues

Public sector development programs, as well as an anticipated upswing in private investment, will spur Greek demand for high quality, technologically advanced products. Preliminary estimates of U.S. exports to Greece in 1976 indicate a rise of more than 30 percent from the 1975 level. However, the continuing downward float of the drachma vis-a-vis the U.S. dollar is expected by Ann Corro of the Bureau of International Commerce to be reflected in a more moderate U.S. export growth rate of 25 percent in 1977.

Fostered by well-balanced, mildly expansionary monetary and fiscal policies, Greece continues on a course of moderate growth. Real GNP growth for 1976 exceeded 5 percent, while inflation was probably held to about 10 percent. The primary impetus for this economic growth is from residential construction, exports, and private consumption.

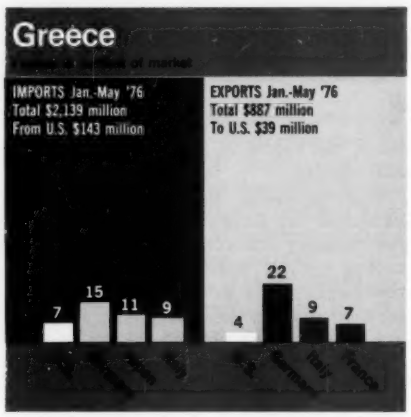
Meanwhile, negotiations for early full membership in the European Community formally opened in July, with Greek hopes for accession in 1979-80, followed by a five-year transition period. Accelerated entry would inevitably bring adjustment problems, but no real structural changes are envisioned before 1980. Also, the Greeks are counting on their natural talents and energy plus access to various EEC development funds to aid in adjusting to full membership status.

Industrial production is growing steadily, with an 8 percent increase probably recorded in 1976, compared to 4.2 percent in 1975. Consumer goods have recorded the principal gains, followed by moderate increases in the production of capital goods.

Foreign investment and the need for technology to realize development goals has been recognized by the government in the implementation of legislation to attract investment capital. Laws providing foreign investors with incentives and protection and governing development of frontier areas and regional marketing firms headquartered in Greece, are being enforced to stimulate investment inflows.

Product categories with highest potential for U.S. exports include communications equipment and systems, based on Greece's desire to update and expand its telephone, telegraph and telex services. Mining equipment may offer good prospects for growth due to the government's emphasis on exploitation of domestic resources to reduce costly fuel imports, and rapid development of the minerals sector as a prerequisite for entry into the EEC. Food and beverage processing and packaging machinery and equipment is another area of promise, especially in specialized fields. Modern agricultural machinery to increase crop yields and save labor will be needed. U.S. aircraft and avionics equipment will continue to dominate the Greek market.

The Department of Commerce is sponsoring a mining equipment trade mission to Greece in April and will be participating in the Thessaloniki Fair in September.



TURKEY

Sustained Economic Growth Improves Market Potential

The U.S. market share in Turkey slipped from near 10 percent in 1975 to just under 9 percent in 1976, partly attributable to decreased demand for U.S. wheat, but Turkey's continuing development strategy of encouraging industrialization will ensure ample sales opportunities for U.S. firms in the current year, according to Ann Corro of the Bureau of International Commerce.

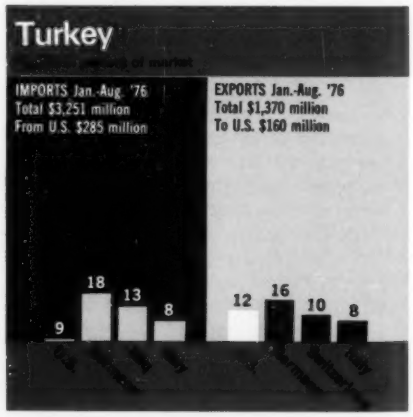
Despite Turkey's internal problems of high inflation and unemployment, plus an international recession and OPEC oil price increases, economic growth in real terms has averaged 7 percent per year since 1971. Estimates of the 1976 performance indicate a 7.2 percent real GNP growth rate, to $40 billion at current prices. Another exceptionally good agricultural harvest and even better annual growth in industrial production are likely.

Maintenance of this sustained rate of economic expansion through emphasis on rapid industrialization is viewed by the Turkish Government as the only viable method of counteracting a low standard of living, rapid population growth and rising domestic unemployment. Public revenues and savings have not been sufficient to allow internal generation of more investment capital to finance industrial development projects, making it necessary for Turkey to borrow from abroad. As a result, a forced expansion of Central Bank credits has exacerbated rapid domestic monetary expansion and high inflation.

Fortunately, all but $100 million of Turkey's foreign debt of $3 billion is owed to international institutions and foreign governments. Most of these credits represent obligations with long maturities and low interest rates. This relatively favorable debt posture provides a positive background to Turkey's efforts gradually to replace its short-term borrowing with medium and long-term credit. In the meantime, international financial confidence has been maintained by meticulously keeping commitments in repayments of both short and long-term financial obligations.

A short-run remedy introduced in May to finance Turkey's payments deficit, and also to serve as an import financing technique, has been the "convertible lira account facility." Under this system, the foreign depositor is remunerated at 1.75 percent above the London Interbank Offer Rate for his currency deposits, and also receives a government guarantee against exchange rate risk. In turn, commercial banks can lend the Turkish lira equivalent to residents, including commercial enterprises. Many American banks are getting their initial exposure in Turkey through this facility, which often translates into increased export business for their American clients.

Excellent opportunities for U.S. goods and services continue to exist in areas related to thermal and hydroelectric power projects, food processing and handling equipment, textiles and apparel manufacturing, chemicals, petroleum and mineral exploration, and highway transportation. A mining equipment trade mission sponsored by the Department of Commerce is scheduled to visit Turkey in April.



TRADE, COOPERATION PROSPECTS SEEN IN EASTERN EUROPE, CHINA

Modest Trade Growth Expected This Year

U.S. trade with the communist countries set a new high in 1976, Susanne S. Lotarski of the Bureau of East-West Trade reports. Growth of both exports and imports contributed to the estimated $4.4 billion turnover with this area which includes the Soviet Union, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, and the People's Republic of China.

Sharply higher agricultural sales spurred U.S. exports to a probable $3.5 billion, which would yield a trade surplus of over $2.6 billion for the year. All countries except Hungary and the PRC increased their purchases of U.S. feedgrains.

Exports of machinery, equipment, and other manufactured goods to the area as a whole increased modestly in 1976, but showed mixed results with respect to individual countries. Increased purchases of such goods by the Soviet Union, Czechoslovakia, and Hungary offset a leveling or small decline in sales to the other countries.

Imports from the People's Republic of China and all the countries of Eastern Europe grew in 1976, showing a one-third increase for the group as a whole. Imports from the Soviet Union, however, declined for a second consecutive year.

A review of the 1977 economic plans of the USSR, PRC, and the six countries in Europe, along with other factors, suggests that U.S. trade with these countries in 1977 will only slightly exceed the record-setting levels of 1976. U.S. trade with the area will continue to show a large surplus, but of smaller proportions than last year, as U.S. exports level off and imports assume a larger share in our trade turnover.

Consumer demand has been spurred by rising wages, and most countries are allocating greater resources to industries producing for the internal market, such as synthetic textiles, leather goods, small appliances, furniture, and automotive industries. Hard-currency deficits are likely to hold down imports of such products from the West, but stimulate interest in licensing of technology and cooperation arrangements in these fields.

Satisfaction of consumer demands is also reflected in the plans in several countries to expand meat production and modernize food processing. Imports of U.S. feedgrains by the GDR, Czechoslovakia, Poland, and the USSR to sustain their animal expansion programs are expected to remain strong. Drives toward self-sufficiency in agriculture augur for continued demand for imported farm equipment and food-processing machinery.

Demand for energy and petrochemical products is rising in all of these countries. Soviet oil, on which Eastern Europe depends, is still priced below world levels for these countries. The price, however, is rising steadily even as supplies level off.

The higher costs for raw materials and labor shortages which most of the communist countries are experiencing have increased the attractiveness of Western capital goods. Technology which can conserve energy and raw materials and increase labor productivity will be particularly in demand in the years ahead.

During the first half of the 1970s, communist country imports from the industrialized West grew faster than their exports to the hard-currency area. Imports from the developed Western nations rose nearly fourfold between 1970 and 1975. In an attempt to improve their trade balances, plans of most countries call for exports to increase at a faster rate than imports for the remainder of the decade.

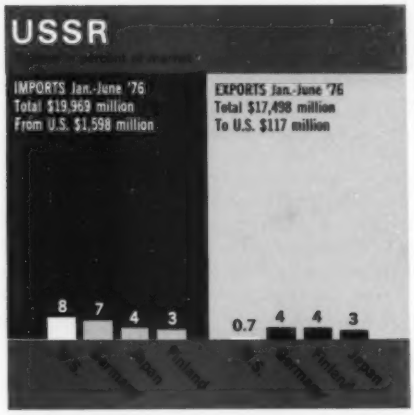
The Commerce Department is offering a new service to help U.S. manufacturers determine the potential for their products in these countries. Tailored to the product line of the firm requesting it, the service provides trade and market-share statistics, and projections of the U.S. export potential. A brochure explaining the "East-West Trade Market Data Package" is available without charge from the Bureau of East-West Trade, Room 4816, U.S. Dept. of Commerce, Washington D.C. 20230, phone 202-377-5500, or from its District Offices.

U.S. Trade with East Europe, USSR, China

Million dollars

Country	Exports 1975	Exports 1976*	Imports 1975	Imports 1976*
USSR	1,836.0	2,135.8	255.3	204.0
East Europe	951.0	1,098.3	472.9	589.0
Albania	0.7	1.1	2.8	2.6
Bulgaria	29.8	40.6	20.2	26.7
Czechoslovakia	53.1	133.1	31.6	33.9
GDR	17.3	61.3	11.2	12.7
Hungary	76.2	60.0	34.7	44.4
Poland	583.3	584.8	239.3	282.7
Romania	190.6	217.4	133.0	186.1
PRC	303.8	134.5	157.4	180.8

*First 11 months. This chart presents more recent data (source, U.S. Census Bureau) than the foreign statistics used for competitive country charts in the following pages.



USSR

New Initiatives Are Key To Expanded Trade With U.S.

Total trade turnover between the United States and the USSR for 1977 should amount to about $2.2 billion, a 10 percent decrease from the record high estimated for 1976, according to Edward S. Bozek of the Bureau of East-West Trade.

U.S. agricultural exports will dip to about $1.3 billion, as the Soviet Union, buoyed by its 1976 banner grain harvest, will purchase just above 6 million metric tons of grain—the minimum required by the 1975 U.S.-USSR Grains Agreement. U.S. nonagricultural exports also are expected to decline due, in part, to lack of access to U.S. credit facilities and a constricted cash flow for the USSR. However, growing U.S. demand for raw and semi-processed materials, including fuels, should increase imports from the USSR to a level exceeding the 1974 record of $350 million.

USSR economic plans during the 10th five-year period, 1976-80, call for particularly high rates of growth in the fuel production and power engineering industries, the ferrous and non-ferrous metallurgical industries, the chemical and petrochemical industries and the mechanical engineering industry. At a recent meeting with American businessmen in Moscow, a Deputy Chairman of the Soviet economic planning committee stated that the USSR intends to emphasize higher quality of production throughout the nuclear, metallurgical, and chemical engineering industries, as well as various branches of electrical engineering, radioelectronics, machine building and instrument making. Concurrently, the USSR will continue to implement a large-scale program intended to furnish Soviet agriculture with highly efficient technology and advanced equipment for increased

livestock production, crop yields and storage facilities.

In 1977, U.S. businessmen interested in the Soviet market will have the opportunity to participate in a number of exhibitions, shows, and seminars, sponsored by the U.S. Department of Commerce. Two major events will be ELEKTRO 77, a June exhibition of electro-technical and power transmission equipment, and CHEMISTRY 77, a September exhibition of equipment and technology for the chemical industry.

Although Soviet economic plans will provide promising sales possibilities for Western firms, new initiatives need to be implemented in Soviet-American trade if U.S. business is to secure a fair share. Trade and financial data indicate the momentum of U.S.-USSR commercial relations is slowing down. For example, quarterly U.S. trade statistics show U.S. exports to the USSR falling from a peak of $630 million in fourth quarter 1975 to $218 million in third quarter 1976. U.S. machinery and equipment exports peaked at $213 million in the fourth quarter 1975 and have remained relatively constant at about $160 million each quarter during 1976. But while the dollar value of machinery and equipment exports has remained relatively constant, the U.S. share of Soviet machinery and equipment contracts placed in the West has dropped from a high of 22 percent in 1974 to a five year low of 12 percent in 1976.

A number of factors have contributed to the relative decrease in U.S. nonagricultural transactions with the USSR. The 1974 closure of the U.S. Eximbank window and the resultant extra demands placed on private bank lending have, over a period of two years, slowly diminished the U.S. portion of Soviet nonagricultural imports from the West. The 1975 Soviet hard currency deficit of $6.3 billion and the 1976 three quarter deficit of $4.1 billion have also influenced the USSR to make purchases of machinery and equipment in other Western countries that have offered credits of about $12 billion.

Some initiatives which could aid in renewing U.S.-USSR commercial momentum would include greater use of compensation arrangements and lease financing. At the December 1976 Board of Directors meeting of the U.S.-USSR Trade and Economic Council in Moscow both U.S. businessmen and Soviet foreign trade officials saw the merit of further utilizing these techniques. Presently, three major U.S.-USSR compensation arrangements are under way and other proposals are under discussion in the areas of chemicals, petrochemicals, oil and gas, pulp and paper, and metallurgy. However, these discussions and the tempo of U.S.-USSR trade, in general, will be closely connected to progress on the outstanding issues of MFN and credit as well as the overall climate in U.S.-Soviet relations.

ROMANIA

Record Year Expected In Trade With U.S.

A surge in U.S. exports to Romania this past autumn has given U.S.-Romanian trade a lift that should carry year-end total trade figures well beyond those of the record year of 1974. The final figure may run as high as $450 million. Both sides had predicted that two-way trade would exceed $400 million in 1976 in reaffirming the mutual objective of $1 billion in trade in 1980. Trade in 1977 is expected to exceed $500 million and it is hoped that it may reach $550 million by the end of the year, Jay A. Burgess of the Bureau of East-West Trade reports.

Several important events took place the latter half of 1976, not the least of which was the third session of the Joint American-Romanian Economic Commission held in Bucharest on Nov. 22-23. Members of the U.S. delegation, headed by former Secretary of Commerce Elliot L. Richardson, discussed with their Romanian counterparts a number of important commercial issues including business facilitation, contract negotiation and fulfillment, trade promotion, U.S. export controls, financing and credits, information exchange, and U.S. anti-dumping laws and procedures.

In addition, Richardson and Romanian Deputy Prime Minister and Minister of Foreign Trade and International Economic Cooperation, Ion Patan, signed the Long-Term Agreement on Economic, Industrial, and Technical Cooperation. This 10-year agreement emphasizes the importance the Romanians attach to cooperation activities by setting forth a framework for cooperation through contractual arrangements between firms, companies and economic organizations of the United States and Romania. Most importantly, the agreement contains an annex setting forth guidelines designed to facilitate the establishment and operation of cooperation arrangements, including joint ventures, on terms familiar to the U.S. business community.

Both the Commission session and the Long-Term Agreement highlight Romania's interest in developing cooperation activities with U.S. firms in the following economic fields: electronics, calculators and computers; compressors; rolling mills; foundry equipment; equipment for the chemical and petrochemical industry; and mining and geological exploration equipment. Basically, Romania looks to cooperation projects as a means to import raw materials, introduce Western technology into its economy, and export machinery and complete industrial installations. Trade and cooperation opportunities are also expected in the areas of machine building, aviation, petroleum, construction materials, light industry, agriculture and telecommunications.

Particular emphasis has been placed by the Romanians on the development of cooperation activities with U.S. firms in third countries. In this regard the Romanians seem interested in developing production capacity in the following fields: mining, chemicals and petrochemicals, oil refineries, and pharmaceuticals. Romanian economic organizations are prepared to join in such third country cooperation either as a general partner or a sub-supplier. They view such cooperation as an excellent opportunity for the third country to develop its raw material resources. The Romanians see their good political and economic relations with many of the countries of Asia and Africa as a strong attraction to U.S. firms otherwise reluctant to enter such markets on their own.

In addition to the Long-Term Agreement, a number of other bilateral agreements were signed or acted upon during the last half of 1976. In October, the emigration waiver for Romania was extended in conformity with the Trade Act of 1974, thereby continuing until July 1977 MFN tariff treatment for Romania under the U.S.-Romanian Trade Agreement. In December, a bilateral Air Worthiness agreement was signed and entered into force, thereby permitting import of Romanian built gliders into the United States.

Trade promotion events for 1977 include technical sales seminars planned by the Commerce Department in the areas of automated construction systems and plastics production. Commerce also will have personnel present at AMERO '77, an exposition in Romania of American industrial equipment and technology, and at the Romanian International Chemistry Show, both to be held this spring.

BULGARIA

Diverse Projects Offer Trade Opportunities

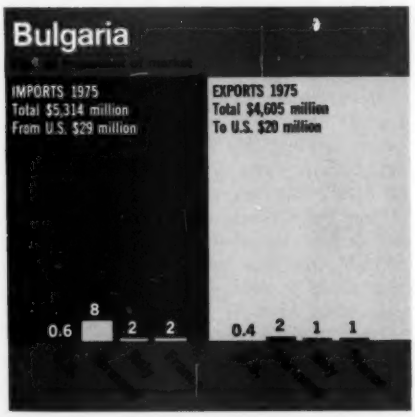
Bulgaria is entering the second year of its current five-year plan with indications that some key industrial sectors are falling short of meeting the country's ambitious planned goals. Despite these difficulties, a number of important projects are planned for 1977 which offer business possibilities for U.S. firms, James L. Ellis of the Bureau of East-West Trade points out.

Problem sectors which emerged in Bulgaria on the basis of six months' performance in 1976 were the power generation, chemicals, machine building, and consumer goods industries. All fell below planned rates of expansion, and all are precisely those industries Bulgarian officials count on to spearhead the economic development drive. The fact that these sectors have not been performing as well as hoped could make advanced U.S. technology especially attractive.

Similarly, Bulgaria's plans for expansion of its exports to the West failed to meet six-month targets last year. Partially balancing this shortfall, however, were receipts from invisibles — tourism, shipping and trucking.

Bulgaria's international trucking business, in fact, is reportedly thriving. Because Middle East ports are overloaded as a result of the oil boom, Bulgaria hauls much of the freight on overland routes between the Middle East and Western Europe. This situation has caused Iran and a large U.S. firm to enter into separate cooperation arrangements with Bulgaria to support the trucking operations.

Other areas offer business opportunities in Bulgaria's $23-billion-GNP economy. An ambitious construction program may need labor-saving devices and techniques, since Bulgaria's labor reserves have all but dried up. Plans for 1977 call for the construction or reconstruction of three electric power plants, and major construction projects at the Burgas Petrochemical Combine, Devnya Industrial Complex, Yambol Chemical Combine, and the heavy machinery installations at Ruse and Pernik.



Additional opportunities present themselves in other sectors related to agriculture. Bulgarian officials, for instance, hope to increase sharply the amount of ready-to-cook and ready-to-eat foods during the current plan period, as well as the total output of livestock.

More business opportunities probably will surface as a result of the March 1977 meeting of the Bulgarian-U.S. Joint Economic Council, a body established by the U.S. and Bulgarian Chambers of Commerce.

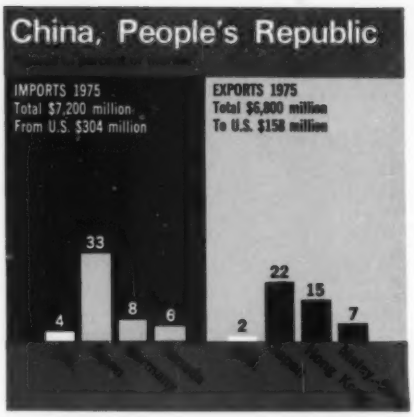
To pursue these potential business opportunities, the U.S. Government plans to mount several trade promotion events in Bulgaria in 1977. Among them are technical sales seminars in automatic construction equipment, in herbicides and pesticides, in irrigation equipment, and in equipment and technology for the chemical industry. In addition, the United States will stage a full-scale exhibition in general industrial and agricultural equipment at the September Plovdiv International Fair.

CHINA

Commercial Links With U.S. Seen Continuing To Broaden

U.S. exports to the People's Republic of China in 1977 may witness a repetition of last year's level of some $150 million—a substantial decline from the 1975 level. The pace of new sales may pick up later in the year, however, as China puts into effect its delayed Fifth Five-Year Plan (1976-80) and the domestic economy and foreign exchange position steadily improve. Commercial links between the two countries will continue to broaden under the umbrella of the Shanghai Communique, even as unresolved problems associated with the lack of formal diplomatic relations hinder realization of full trade potentials, John D. Phipps of the Bureau of East-West Trade reports.

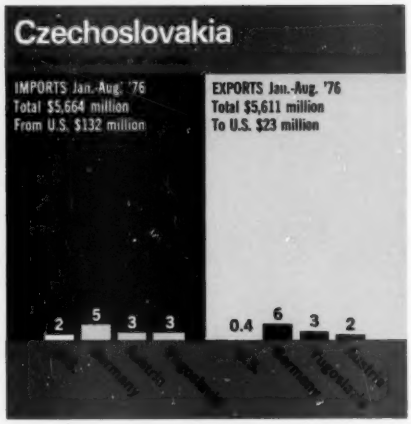
After a year marked by natural disaster and political disorder, China's economy appears poised at the threshold of a period of stable growth. The debilitating power struggle between "moderates" and "radicals" has apparently been won by the "moderates" whose emerging policies appear to favor rational economic growth and a positive approach to foreign trade. The removal from the new five-year plan of the "radicals" influence and a renewed



dedication to the goal of making China into a first-rate industrial power by the end of this century, first unveiled by Premier Chou in 1975, characterize the new approach. A good agricultural performance and rapid reconstruction of Tangshan earthquake damage also help provide a basis for significant improvement in overall economic growth over last year's level.

Real growth in China's stagnant foreign trade should revive in 1977 as the squeeze on foreign exchange and resulting pressure to curtail import growth seen in the last couple of years eases, due to the virtual elimination of China's import surplus of 1974-75 and the continued growth of foreign exchange earnings from Hong Kong properties and other sources. Still, the peaking in 1977-78 of payments for the 1973-75 wave of complete plant purchases will continue to restrain import growth in the near term. China wil continue to enlarge its export market in the United States as shipments of some $200 million last year gave China its first export surplus with the United States since the resumption of direct trade in 1972.

United States exports to China last year suffered from the complete absence of agricultural shipments and the completion of previous large capital goods sales. While the immediate outlook for agricultural and complete plant sale shipments in 1977 is bleak, China has continued discussions of specific sales proposals with a number of U.S. firms, giving rise to the possibility of increasing sales later in the year—especially as requirements generated by the new plan materialize. China's interest in U.S. technology is evident from the increasing number of firms invited to China to stage technical seminars in a variety of fields. In the meantime the number of American businessmen who have engaged in direct commercial discussions with Chinese trade officials at the Kwangchow Trade Fair continues to grow as the 700-800 businessmen who attended the Fall 1976 Fair conducted some $55-$60 million worth of business.



CZECHOSLOVAKIA

Economic Troubles Persist But Trade Possibilities Continue

Although economic problems persist, the Czechoslovak market continues to offer export opportunities for U.S. business, particularly in the areas of feedgrains, technology, specialized machinery, and certain types of consumer goods, according to James L. Ellis of the Bureau of East-West Trade.

Hard-hit by rises in the world price of oil, virtually all of which the country must import for energy and chemical industry needs, Czechoslovakia is seeking to develop alternative energy sources. Expanded effort is being given to mining dwindling coal reserves, and plans call for long-term expansion of the nuclear power industry, for which Czechoslovakia has ample supplies of rich uranium.

To meet the problems of low labor productivity and obsolescent machinery, Czechoslovak planners hope to increase managerial incentives and imports of advanced technology and processes. Planners favor imports of turn-key operations, to assure that new purchases enter into production as quickly and as efficiently as possible. U.S. firms have a competitive edge in many areas, as their technologies and managerial skills are considered superior.

Areas of priority under the current five-year plan in which U.S. technology might be most attractive are the chemical and machine tools industries. Chemicals output is to increase by over one-third during the current five-year period and that of machine tools, by about one-half.

The bulk of current U.S. exports to Czechoslovakia, however, are agricultural goods. Because of severe drought in 1976, Czechoslovak imports of U.S. feedgrains swelled U.S. exports to Czechoslovakia to an alltime high.

Although the call for U.S. feeds may decline somewhat with better harvests, still demand will remain strong as Czechoslovakia pursues an ambitious program of expanding meat production. In addition, the country is in the market for advanced feedgrain and protein production processes, as it works toward self-sufficiency in agricultural output.

Much of the government's attention continues to focus on trying to satisfy increasingly sophisticated consumer demand. Although prices of consumer goods have remained more or less stable since 1970, a wholesale price reform which took effect as the year began, will doubtless affect consumer prices to a certain extent. To alleviate possible consumer dissatisfaction, the government may have to reallocate scarce resources to the consumer sector.

To enable foreign businessmen to have closer contact with the market, the Czechoslovak Government now permits them to maintain representative offices within the country. At the end of last year, 18 firms (none of them U.S.) had received permission to establish such offices, although problems of housing and office space remained unsolved.

Czechoslovakia has maintained a conservative borrowing position to support its purchases from the West. Recent loans from the West total only $260 million. Trade imbalances within the past three years, however, have put estimated Czechoslovak hard currency indebtedness over $1 billion.

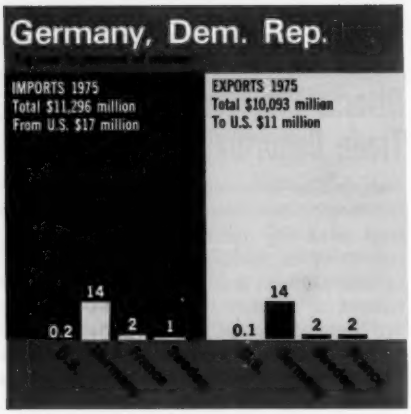
Planned U.S. Government-sponsored trade promotion events in Czechoslovakia in 1977 include technical sales seminars in medical equipment, in textile machinery, in plastics production equipment, and in pollution control, and an exhibition of surgical and medical equipment at the annual Brno Engineering Fair in September.

GERMAN DEM. REPUBLIC

Country Looks To U.S. For Feedgrain Imports

U.S. foreign trade statistics should indicate roughly a fourfold increase in U.S. exports to the German Democratic Republic in 1976 over the level reached in 1975. This can be attributed primarily to increased exports of agricultural commodities, a trend which will undoubtedly continue in 1977. U.S. exports of manufactured goods, on the other hand, remained at a rather modest level, the Bureau of East-West Trade reports.

The true level of U.S.-GDR trade in agricultural commodities has not been reflected in official U.S. trade statistics.



Over the past several years, the GDR has been a major purchaser of U.S. feedgrain, buying some 2.6 million tons of grain during the marketing year 1975/76. The grain, however, has been transshipped to the GDR through ports in Western Europe and has been recorded in the U.S. as exports to Western Europe.

This situation should change shortly. In November of last year, the GDR indicated its intention of regularizing its grain trade with the United States by purchasing between 1.5 and 2 million tons of U.S. feedgrains annually through 1980. In November 1976, the GDR also was given permission for the first time for its merchant vessels to call at U.S. ports. Consequently, U.S. grain will increasingly be shipped directly to Wismar in the GDR. These grain shipments will be recorded in U.S. trade statistics as exports to the GDR and could easily reach a level of $200-$300 million annually over the next four years.

Many factors combine to make the outlook for U.S.-GDR trade in manufactured goods less certain. Increases in the prices of imported raw materials together with a slackening of demand for GDR goods in the West have resulted in a marked deterioration in the GDR's terms of trade in recent years. A growing debt to the West, estimated to be in the neighborhood of $5 billion at the end of 1976, has caused the GDR to restrict some imports and to reallocate resources into production for exports.

Nevertheless, GDR efforts to conserve energy and raw materials and to improve productivity both in industry and agriculture suggest a potential market for U.S. equipment and technology. Possibilities for the sale of materials handling and other labor-saving equipment and technologies look particularly good. Finally, plans to reduce agricultural dependence upon natural phenomena suggest a potential market for irrigation equipment, hothouse technology and equipment, and agricultural chemical equipment and processes.

HUNGARY

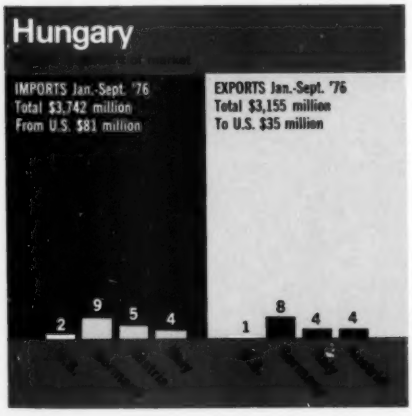
Moderate Trade Growth With U.S. Forecast

Reflecting the same basic trends of previous years, U.S.-Hungarian bilateral trade should continue to grow in 1977. Hungary's need for Western technology, the continuation of long-term cooperation agreements, and growing familiarity of Hungarian end-users with U.S. products should permit moderate growth of U.S. exports, particularly in the manufactured goods area.

Hungary's foreign trade picture is beginning to rebound from the serious deficit situation of 1975, Mona F. Levine of the Bureau of East-West Trade reports. Through strict programs of promoting exports to and curtailing nonessential imports from Western countries, Hungary cut its 1976 hard currency trade deficit to an estimated $510 million from $747 million in 1975. In its trade with the United States, Hungary brought its exports and imports into closer balance.

Prospects are good for increased exports of industrial products and technology in the next year as Hungary continues modernization of its production structure. Hungarian leaders view this goal as essential to improving its foreign trade balance. The 1977 annual development plan calls for a 6 percent increase in industrial production without any increases in the labor force. Particular emphasis is being placed in the chemical, machine-building and energy areas. Although industrial output increased about 5 percent in 1976, overall growth rates were lower than planned due to a variety of problems, mainly in the agricultural sector.

U.S.-Hungarian bilateral trade should benefit from a recent development which will permit Hungary to obtain medium and long-term credits in this country. After settling its last remaining debts with the United States, Hungary has been declared exempt from the Johnson Debt Default Act, thus paving the way for direct borrowing in U.S. money markets.



Prospects for expansion of trade were the subject of former Commerce Secretary Elliot Richardson's meetings in Budapest in late November. Meeting with his host, Deputy Prime Minister Gyula Szeker, Prime Minister Gyorgy Lazar and the Ministers of Foreign Affairs and Foreign Trade, the Secretary discussed ways to resolve the major outstanding bilateral problems, including the reciprocal extension of Most-Favored-Nation status. During his visit, Richardson also visited the Radelkis Cooperative, the site of the only joint venture with a U.S. firm (Corning Glass) and participated in a roundtable discussion at the Hungarian Chamber of Commerce with top Magyar industrial leaders.

For the first time, the Bureau of East-West Trade will sponsor an exhibit in one of Hungary's specialized trade fairs in 1977. An exhibit of agricultural equipment and food processing machinery at AGROMASEXPO, the agricultural goods fair, is planned for April 15-20. Technical sales seminars scheduled for Hungary this year include medical equipment in February, textile machinery in late March and early April, herbicides and pesticides in June, and air and water pollution controls in September.

POLAND

Consumer Needs Affect Foreign Trade And Investment Plans

U.S. trade with Poland can be expected to expand in 1977, but at a more moderate rate than in preceding years, as Poland embarks on a program of redressing its large hard currency trade deficit.

According to Margaret Mudd of the Bureau of East-West Trade, U.S. exports to Poland in 1976, although growing at a slower pace than in the last three years, are estimated to have increased moderately over the 1975 level of $580 million. Larger than usual grain purchases by drought-stricken Poland accounted for the increased U.S. exports and compensated for the slight decline in shipments of machinery, equipment, and other manufactured products. U.S. imports from Poland in 1976 showed a healthy advance of about 30 percent. A year-end total of about $317 million is projected. The imbalance which has characterized U.S.-Polish trade since 1972 thus continued in 1976, with the U.S. surplus running over $300 million.

Readjustments in Poland's economic

plan for the remainder of this decade, which were revealed in December 1976, call for exports to increase 15 percent annually, or at three times the rate of imports. Under the revised plan, investments are being redirected toward industries satisfying consumer needs and projects with surefire hard-currency export potential.

This new consumer orientation provides opportunities for the export to Poland of machinery and equipment for agriculture and food processing, housing construction, and the manufacture of synthetic fabrics. The housing and food industries alone will receive 43 percent of total investment in 1977.

The service sector, which is singled out for particular improvements, has been opened to foreign investment, including possibly equity joint ventures. Private sector initiatives in services and crafts are being encouraged, with priority being given to construction and building materials, the food industry, and appliance repair. Imports of small tools and equipment to support the expansion of such services are anticipated.

Export prospects for U.S. businessmen involved in other industries are less certain. Although orders from previous years for metallurgical equipment, a color television glass and picture tube manufacturing facility, and chemical projects will support U.S. exports in 1977, sales in the coming year will increasingly depend upon the flexibility of the American exporters with regard to counterpurchase and financing arangements. Interest in industrial cooperation with Western firms runs high, especially in the areas covered in the Polish list published in the September 27, 1976, issue of *Commerce America*.

The Commerce Department will participate in the annual June Poznan International Fair, and also plans to sponsor a business development office and catalog show at TAROPARK, the International Packing, Storage and Handling Fair in Poznan, Oct. 16-23.

NEAR EAST, NORTH AFRICA BOOM RECEDES BUT AREA'S MARKETS REMAIN VIGOROUS

Business Opportunities Will Continue To Expand

Business opportunities in the Near East and North Africa region for aggressive U.S. companies will continue to expand in 1977. U.S. exports may top $14 billion, according to Kathleen Keim of the Bureau of International Commerce.

The market is especially strong for construction and building materials and equipment; irrigation, desalting and power equipment; electronic data processing equipment plus related software and office machines; agricultural and textile machinery; communications equipment; petrochemical equipment; and machine tools. In addition, the demand for construction, engineering, architectural, management and consulting services remains solid for everything from planning and building a new town to running an airline.

During 1976, in contrast to the last several years, the United States experienced moderate export expansion and a balance of trade deficit in its trade with the Near East and North Africa. The growth rate in U.S. exports, which jumped over 300 percent from 1972 to 1975, declined in 1976 to 10 percent (exports totaled $11 billion). The declining growth rate occurred primarily in the major markets of Iran, Israel and Algeria as a result of those governments' decisions to limit total imports. On the other hand, U.S. exports to the Arab Near East, Saudi Arabia and Bahrain in particular, showed significant increases.

Despite a lower rate of increase, the United States continued to hold its own against strong competition. Based on statistics for the first six months of 1976, both the United States and Japan report increased exports to the region of 13 percent over the same period in 1975. At the same time, our other major competitors, West Germany and the United Kingdom, report increases in their exports of 10 and 5 percent, respectively.

Last year's U.S. balance of trade with the Near East and North Africa recorded a fundamental shift, as the United States experienced a deficit of approximately $3.5 billion c.i.f. due to an increase in oil imports. Previously, with the exception of 1974, the trade balance had consistently shown a surplus; 1975 recorded a hefty surplus of $1.4 billion c.i.f. Given current patterns of U.S. petroleum production and consumption and the rise in oil prices, U.S. imports from the area are expected to increase in 1977.

The Organization of Petroleum Exporting Countries (OPEC) raised petroleum prices by 10 percent during the Qatar conference in December. Saudi Arabia and the United Arab Emirates (UAE) deviated from the majority by raising prices 5 percent. Since the conference, Saudi Arabia has anounced its intention to increase oil production by over 35 percent. Some shift of purchases to lower priced crude has already occurred, but the effect on oil revenues and costs for individual countries has yet to be determined. It is certain, however, that the hike in oil prices will result in higher U.S. import costs and increasing export opportunities for U.S. business.

During 1976, several OPEC countries, notably Algeria and Iran, curtailed development expenditures due in part to financial constraints and infrastructure bottlenecks. Barring any drastic shift to Saudi or UAE crude, the growth in oil revenues plus the strengthening demand for petroleum in the industrialized countries should improve their financial condition in 1977. But infrastructure problems, especially in the transportation area, and manpower shortages will continue to plague the area.

Port congestion has abated somewhat due to the use of LASH vessels and roll-on/roll-off ships and the opening of special facilities to off-load container shipments. Real improvement in the situation, however, is still several years away, when major port projects now under way or in the planning stage are completed.

Importing people

Many of the countries in the area are attempting to alleviate the manpower shortage by importing managerial, skilled and unskilled workers. This influx of foreigners has placed additional strain on infrastructure, especially housing. The governments, anxious to reduce the dependence on outside skills, have engaged foreign companies to provide a variety of professional training.

Qatar, another OPEC member, is a prime example of a rapidly expanding economy experiencing infrastructure bottlenecks and a shortage of unskilled and technical manpower. The government's plans to develop infrastructure include construction of housing, hospitals, schools, roads, port facilities and power stations. Large-scale industrialization, which centers around the development of petroleum and associated natural gas, will be undertaken by the government. The private sector is encouraged to take part in smaller industries such as flour milling, food processing, plastics and paper products. Implementation of these projects will create demand for consultants, architects, engineers and construction companies. Manufacturers of construction, mining and materials handling equipment; building supplies, fixtures and equipment; and trucks, trailers and buses will also find exceptional opportunities in Qatar.

Business opportunities in the area are by no means limited to the OPEC countries. Israel demands sophisticated capital equipment and services for its modern diversified industrial sector. In addition, investment opportunities have become more attractive as the Government of Israel recently signed agreements with the EEC and U.S., allowing duty-free entry of many Israeli products.

Bahrain, though not a member of OPEC, depends on its petroleum industry for 85 percent of government's revenues. Since the country's oil reserves are expected to be depleted in 15 years, the government is anxious to diversify the economy. The industrial sector for the foreseeable future will consist of a petroleum refinery, aluminum plant and dry dock facilities. In addition, Bahrain has become a center for offshore banks and deposits from abroad as well as an important terminal for international airlines. Total offshore banking assets, which totaled $1.7 billion in December 1975, rose to $5.1 billion by September 1976. Bahrain has also attracted over 60 U.S. firms, that have established either local or regional offices there. But further expansion along these lines may be curtailed, since Bahrain faces growing problems of inflation and pressure on infrastructure. Nevertheless, U.S. companies will continue to find Bahrain an attractive market for clothing, heavy machinery, and materials handling equipment. Due to Bahrain's construction of housing, office buildings, hotels and possibly a causeway between it and Saudi Arabia, construction machinery and household and office furnishings will be in demand.

In 1975, before full-scale civil war, Lebanon was a $400 million market for U.S. business. During 1976, however, U.S. exports fell to less than $50 million. Prospects for peace in Lebanon are encouraging, economic activity is resuming, and plans for reconstruction are already under way, thus opening the market for U.S. business. The center city of Beirut will be rebuilt along with power, electricity, telex, road and port facilities. According to some reports, about 6,000 commercial establishments suffered damage; government grants or low interest loans will assist in reestablishing small and medium-sized businesses. Lebanon

is looking toward its Arab neighbors, especially Saudi Arabia, to assist with financing.

Several non-oil exporting Arab countries have recently published development plans which foreshadow expanded opportunities for U.S. business. Syria's projected expenditures of $13.8 billion under its 1976-80 development plan will be divided equally between three sectors: agriculture and irrigation; industry, electricity and minerals; and services and infrastructure. Much of this spending will be financed by gifts, loans and investments from the Arab oil exporting countries; substantial investment interest has been shown by Kuwaiti private entrepreneurs. While economic activity in Syria is dominated by the government, private investment is encouraged in transport, tourism (hotels and restaurants), light manufacturing, property development and contracting. Because Syria's economic development is dependent on foreign goods and services, almost half of its imports consist of transport equipment, machinery and metal goods. Syria's total imports almost tripled between 1973 and 1975; imports from the United States increased more than 500 percent during the same period.

Objectives of Jordan's plan

The objectives of Jordan's development plan (1976-80) include development of commodity-producing sectors to create a self-generating economy, achievement of the highest possible level of employment, development of manpower efficiency and productivity, expansion of exports, and development of economic activities throughout the country. In the agricultural sector, the government aims to increase production to satisfy more of the domestic requirements for major agricultural products. The area of irrigated lands will be increased and surface irrigation systems will be replaced by sprinkler systems. In the industrial sector, encouragement will be given to food industries based on local agricultural products and on consumer and intermediate goods industries which provide import substitutes or exports. Basic infrastructure projects such as housing, electricity and water to support agriculture and industry will be undertaken.

Oman's First Five-Year Development Plan (1976-80) emphasizes diversification of the economy toward agriculture, minerals and light industry. Although a substantial share of the projected $8.2 billion expenditures will be devoted to defense, investment in civil development is expected to exceed $2 billion. Due to the projected decline in oil revenues, and the heavy commitment of government funds to ongoing defense and civil projects, new programs will have to be financed externally.

ISRAEL

U.S. Seen Likely To Maintain Top Share Of Import Market

Israel will continue to be the third largest market for American exports to the Near East during 1977, exceeded only by Iran and Saudi Arabia, according to Gayle Reichhardt of the Bureau of International Commerce. The United States is expected to maintain both its current level of exports to Israel and the largest share of the Israeli import market during 1977.

Israel's economy last year was characterized by moderate GNP growth, an inflation rate of about 35 percent, nearly full employment, and a somewhat improved balance of payments position. The level of Israeli exports last year rose an estimated 15 percent over the previous year, while imports declined 3 to 4 percent. This decrease in the country's total imports was reflected in the lower volume of U.S. sales to Israel. Trade and payments data for the first nine months of 1976 indicate that Israel's balance of payments deficit for the year will total $3 billion, $800 million less than the 1975 deficit. This improvement was influenced by a partial recovery of demand in the world marketplace and by several economic measures taken by the Government of Israel.

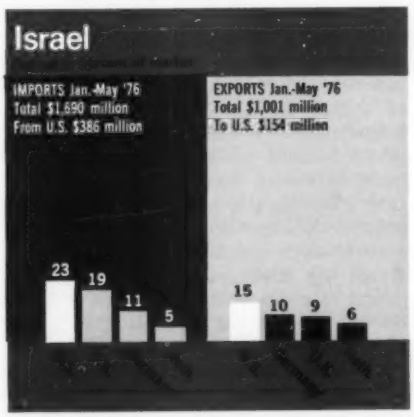
To discourage speculation and consumption and to promote exports, the government implemented a system of small, regular currency devaluations in June 1975. Since the program began, the Israeli pound has been devalued 15 times by a total of about 45 percent. Furthermore, last July, the government changed the linkage of the pound from the U.S. dollar alone to a basket of five foreign currencies, weighted in part according to Israel's export pattern. Another economic measure adopted in 1976 was the institution of a value-added tax on transactions involving most goods and services, including all imports.

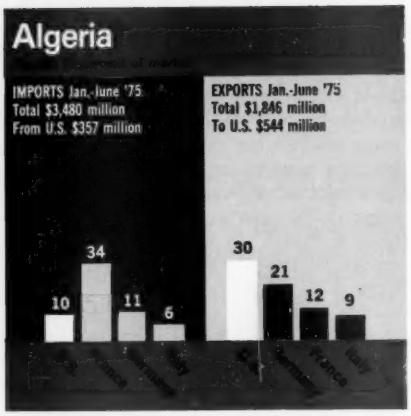
Forecasts for 1977 indicate a slow rate of GNP growth coupled with continued high inflation and a large balance of payments deficit. Consequently, the new year will find Israel continuing a policy of economic restraint. Actions taken by the government in the coming year will be directed largely at encouraging exports, cutting back imports and consumption, and attracting foreign investment.

Israel hopes to attract foreign investment dollars by providing loans at subsidized interest rates, cash grants, and tax concessions to qualified projects under the Law for the Encouragement of Capital Investment. Foreign manufacturers may also wish to consider a location in Israel to take advantage of the duty-free treatment which Israeli industrial exports will receive in the European Economic Community, effective in July, under the terms of a special trade agreement. On Jan. 1, 1976, Israel became eligible for the United States' generalized system of preferences (GSP). Countries qualifying for GSP may export some 2,700 products duty-free to the United States. In addition, the Governments of the United States and Israel have initiated a treaty which would end double taxation on investments. The treaty has been presented for ratification according to each country's constitutional procedures, and currently is before the U.S. Senate.

Israel hopes to increase its industrial production in the coming year—particularly for exports. Israeli industrial development in recent years has emphasized high technology industries, with the defense sector receiving a high priority. Some of the most promising markets for U.S. products and technology in Israel this year will be for electronic components; computers and peripheral equipment; electronics industry production and test equipment; metalworking and finishing equipment and machine tools; chemical processing equipment and supplies; process control instrumentation; avionics and aviation support equipment; and textile machinery.

Certain American-origin products will have a competitive edge in the Israeli marketplace next year as a result of the U.S. Government's commodity import assistance to Israel. Under the commodity import program for FY 1977, Israel will receive some $585 million in grants and loans which must be used to purchase designated U.S. products at market rates. American commodities which are eligible for financing under the program include chemical products, agricultural equipment and products, pharmaceuticals, textiles, structural steel and metal goods, electrical equipment, paper products, scientific instruments, transport equipment, rubber and other goods.





ALGERIA

Readjustment In Economy Will Slacken Future Growth

The Algerian economy is currently going through a period of readjustment; planning is likely to become more cautious and overall investment spending reduced in the period immediately ahead. Inasmuch as Algeria is determined not to lose the momentum of its drive toward economic development, however, considerable opportunities still exist for U.S. companies engaged in design, engineering, and the manufacture of high technology products. An increase in U.S. exports is foreseen for 1977, consonant with Algeria's growing food import needs and expected improvement in its petroleum export earnings, according to Arthur Laemmerzahl of the Bureau of International Commerce.

Following elections this winter and the ratification of a new constitution, the Algerian Government should be in a good position to deal with its short-term financial problems and proceed with a more balanced development program. Although eager for rapid development of the economy, to date Algeria has found it difficult to meet the goals of its $27.5 billion Four-Year Plan (1974-77).

The plan's sizable capital spending program has so far resulted in very little growth beyond that accounted for by the petroleum sector. The chronic shortage of skilled labor and the administrative inflexibility in this centrally-planned economy have made it difficult for Algeria to absorb investments at the rate called for by the plan. Moreover, revenues from petroleum and natural gas exports have not been as great as projected by Algerian planners. A trade deficit of about $900 million and a deficit on current account of some $1.3 billion have been estimated for 1976.

Long-term development depends on Algeria's ability to bring planned LNG liquefaction facilities and new petroleum refinery capacity into operation rapidly enough to permit steady export growth through the next decade. In addition to petroleum, Algeria's industrial development is oriented toward the establishment of new industries to alleviate unemployment, lessen dependence on imports, and exploit non-petroleum resources. The greatest potential for U.S. firms involves consultancy or other contract services with Algerian Government companies or ministries. Government tenders (virtually all non-agricultural productive enterprises in Algeria are government-owned and rely on the tendering process) typically favor turnkey type projects, with provision for the training of Algerian workers. In addition, the contracts can stipulate that the contractor must remain on the job until the plant is operating at a specified capacity. Particular opportunities lie in the areas of communications equipment, transport equipment, and housing and medical infrastructure projects. Although Algeria's agricultural sector has excellent growth potential, it has been neglected in favor of industrial projects. Therefore, with a rapidly growing population—3.2 percent per year—its imports of agricultural products are growing steadily.

American firms seeking business opportunities in Algeria ought to bear in mind that this is a particularly difficult market, and one in which the very best effort is required for success. Although American firms will find it necessary to maintain regular contact with Algerian officials in the pursuit of implementation of any substantial project, local agents or representatives are forbidden by Algerian law. This means that market penetration is essentially a "do-it-yourself" operation, requiring patience, use of the French language, and rigorous adherence to commitments. It is also important to be able to support sales efforts with financing. For all this, Algerians are basically well disposed toward American technology and to business dealings with Americans.

Trade promotion events scheduled by the Department of Commerce include a port development technical sales seminar this month, and another on electronic data processing in November.

EGYPT

Exports Continue Expansion In Spite Of Constraints

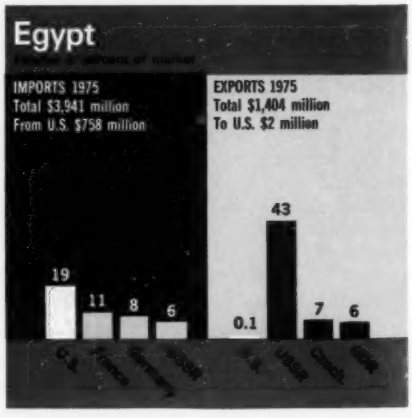
For the U.S. exporter, Egypt, with its population of 38 million, has the greatest long-term market potential of any country in the Near East. Despite the constraint of Egypt's foreign exchange shortage, U.S. exports have increased dramatically from the 1973 level of only $225 million to a preliminary estimate of about $800 million in 1976. Further growth in 1977 could bring the figure near $975 million, with the prospect for still greater growth as the foreign exchange problem eases, according to Kenneth R. Button of the Bureau of International Commerce.

The most important Egyptian imports from the United States continue to be foodgrains and edible oils. However, U.S. exporters will find a substantial market for construction, road building, and transport machinery, along with a range of other manufactured goods.

Good opportunities for U.S. exporters have also been created by the foreign assistance program of the U.S. Agency for International Development (AID). From June 1975 to October 1976, AID grants and loans to Egypt totaled almost $800 million, with an additional $200 million provided for foodgrain sales under PL-480, making the assistance program for Egypt among AID's largest. AID's plans for the fiscal year ending September envision $750 million to support a variety of commodity import and project activities.

Egypt's 1976-80 Five-Year Plan forecasts overall development expenditures of $20 billion, much financed from foreign sources. Firm investment projections for the various sectors have not yet been released, but it is clear that this ambitious program will be largely directed at expanding industrial and petroleum production and at improving the infrastructure, although significant inputs will be made in agriculture as well. Many of the planned projects will be part of integrated regional development schemes for the Suez Canal and Northwest Coast areas.

While Egypt continues to derive most of its foreign exchange from cotton exports, tourist services and worker remittances, hard currency earned from the Suez Canal and petroleum exports will become increasingly important. The Suez



Canal traffic is approaching its preclosure level and in 1976 brought revenues of about $400 million. The government's greatest hopes, however, rest with expanding petroleum production, which it predicts will increase from the 1976 level of 350,000 barrels per day (bpd) to one million bpd in 1980. Toward this goal, more than 30 oil exploration concessions have been granted to foreign oil companies.

Although Egypt encourages U.S. private investment in joint ventures as part of its overall development strategy, few U.S. projects have to date been implemented. Egyptian cabinet members concerned with economic policy, however, are aware of the problems involved and appear to be eager to take the steps necessary to make Egypt more attractive to investment. They are particularly anxious to promote export-oriented triangular investment arrangements combining U.S. technology and management skills with Arab oil funds and Egypt's labor and commercially strategic location.

A private organization actively promoting U.S. trade and investment ties with Egypt is the Egypt-U.S. Joint Business Council. This group has prepared abstracts for 35 potential joint venture projects which it considers to be most promising. It has also placed a U.S. businessman with the Egyptian Economic Mission in New York and another with the Egyptian Investment Authority in Cairo to further assist potential U.S. investors.

Upcoming trade promotion events sponsored by the Department of Commerce include a telecommunications trade mission in February, a building/construction equipment trade mission in April, and a building/construction technical sales seminar in October. U.S. firms will also participate in the U.S. Pavilion at the Cairo International Fair in March. Last year's fair was quite successful for U.S. firms, which reported $4.5 million in immediate sales and $9.5 million in projected 12-month sales.

IRAN

Economy Improves; Healthy Market Growth Foreseen

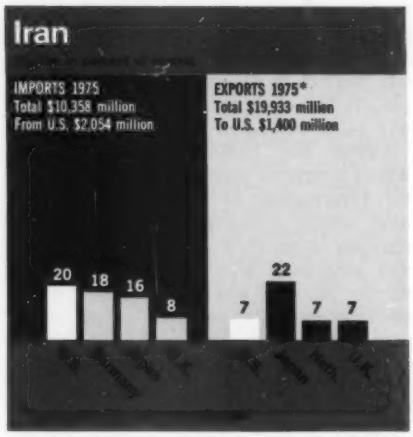
The economic picture in Iran is brighter than it has been for well over a year, according to Michel F. Smith of the Bureau of International Commerce. Private sector investment has made a strong comeback, and a number of large development projects, pending since mid-1975, appear ready to move forward. U.S. exports to Iran, after a temporary decline last year, should top the $3 billion mark again in 1977.

The total size of the market, now about $12 billion a year, will very likely grow to $40 billion by 1983, as the Government of Iran has every intention of maintaining a rapid pace of development, financed to the extent necessary by external borrowing. The Sixth Development Plan (1978-83), which is now being readied for presentation to Parliament by August, will call for development expenditures to increase at a 20 to 25 percent annual rate and an average real GNP growth rate in the range of 10 to 12 percent during the plan period.

Over the past three years, Iran's leading suppliers have been the United States, West Germany, Japan, the United Kingdom and France, in that order. Imports from these countries have consisted primarily of machinery and transport equipment (e.g., automotive vehicles, aircraft, agricultural machinery, construction equipment, power generating machinery, communications equipment, electrical distributing equipment, heating and cooling machinery, pumps and valves, and machine tools). In addition, the United States is Iran's principal supplier of wheat and other foodgrains, as well as an important supplier of chemicals and other industrial raw materials.

Last year's drop in U.S. exports to Iran, already noted, was due in part to an overall contraction of the Iranian market. Similar setbacks were experienced by Japanese and British exporters. On the other hand, West Germany and France reported increased sales to Iran in 1976 as compared to 1975. In this connection, two factors should be noted. Iran's swing back to offshore credits to finance imports last year gave a real boost to those suppliers (primarily German and French) who were in the best position to offer attractive credit terms. Moreover, last year saw a sharp drop in Iran's imports of agricultural commodities and industrial raw materials, which had a disproportionate impact on American exporters. In view of reduced inventories in Iran, there is a strong likelihood of recovery in such purchases during the near term. The long-range outlook for sales of wheat and other basic foodstuffs is even better, as Iranian agriculture continues to fall farther and farther behind in its ability to satisfy domestic demand.

Despite a rapidly expanding industrial base, Iran's economic performance is tied more closely than ever to the performance of the petroleum sector, which now accounts for close to 90 percent of the country's foreign exchange earnings. Oil export revenues for 1976 totaled some $20.9 billion, or 11.3 percent higher than the previous year, thanks to record-level oil output toward the end of 1976. The outlook for oil exports in 1977 is obscured by uncertainty as to effect of the recent price split within OPEC. Whether Iran will be forced to curtail production or reduce prices will depend heavily on the extent to which Saudi Arabia is able and willing to expand oil output and whether Iran is able to dispose of more of its oil through barter deals, as it is now seeking to do.



The economic slowdown starting in late 1975 enabled Iran to unplug some of its worst bottlenecks, particularly in the transportation sector. The authorities are doing a more effective job in governing the allocation of resources and setting priorities, and they are now intent on eliminating waste at all levels. Thus, the long-term outlook is for sustained growth, albeit at an easier pace than that experienced in the period following the 1973/74 oil price hikes.

KUWAIT

Opportunities Excellent For Persistent Firms

The U.S. share of the Kuwaiti market in 1976 left its early-1970's peg of around 14 percent and climbed into the higher teens. Total U.S. exports to Kuwait are projected to reach $555 million in 1977, according to Robert Atcheson of the Bureau of International Commerce. The commodity mix will retain its customary blend of machinery and transport equipment (about 40 percent), manufactured goods (30 percent), and foodstuffs, beverages and tobacco (10 percent), but the market for high-technology-related services over the next five years will be explosive.

The expected increase in U.S. exports to Kuwait is related to the expansion of Kuwaiti Government expenditures on domestic industries, military preparedness, public housing, education, medical care,

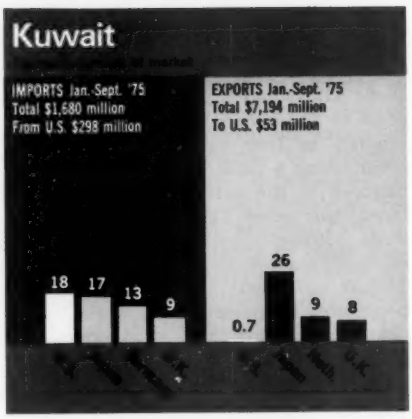
transportation, and other infrastructure projects. With rising disposable income, Kuwait's already affluent population of one million is an expanding market for foodstuffs, clothing, recreational goods, and other consumer items.

Under the 1976-80 Five-Year Plan, which programs spending of $16.6 billion, the Government of Kuwait will develop new capital intensive, non-polluting industries to enhance the economic balance and long-term welfare of Kuwait. Immense interest has been generated in downstream petrochemical development, and estimates of petrochemical investments by 1980 range from $500 million to $1.2 billion. As forward integration proceeds, petroleum end-products such as plastics, fibers, synthetic rubber, detergents, and fiber glass are likely candidates for local industries. The most important industrial project currently under construction is the $1 billion plus gas utilization plant, engineered and supervised by Bechtel. Also under consideration are an aromatics plant, an olefins complex, a melamine plant, and a hydrazene and petroprotein complex. The high state of U.S. technology in this area should give American firms good opportunities for sales of equipment.

Although Kuwait lacks an indigenous agricultural sector, it has a nascent industry built around soft drink bottling, flour milling, dairy and poultry processing and chicken farming. Plans are under way to expand other food packaging outlets. Should the Arab Fund for Economic and Social Development's Plan succeed in turning Sudan into the "Arab granary," Kuwait could become a major center for the processing and storage of foodstuffs for the entire area. Expanded opportunities are foreseen for poultry and livestock slaughtering and processing equipment; beverage bottling and sterilizing equipment; and food packing and sealing equipment.

Emphasis will also be placed on public works projects aimed at decreasing the divisions in Kuwaiti society—especially in housing, public services, communications and transportation. The $2.3 billion allotted for municipal development and the heavy expenditures planned to expand transportation and service facilities maintain Kuwait's excellence as a market for construction material and equipment. Plans to spend $508 million on upgrading and construction of medical facilities and the need to improve sanitation, management and health delivery systems are expected to create new demand for diagnostic, laboratory and sterilizing equipment, medical instruments and systems approaches to health care.

Per capita, Kuwait has one of the world's largest potentials for computer systems, copiers, electric typewriters,



mini-computers and related software, calculators and related information storage systems. To take advantage of this market, the Commerce Department is sponsoring an electronic data processing technical sales seminar which will visit Kuwait and other Near East countries in March.

SAUDI ARABIA

Rising Oil Revenues Fuel Rapidly Expanding Economy

The past year has witnessed a dramatic increase in U.S. exports to Saudi Arabia, Peter Edmonds of the Bureau of International Commerce reports. The total value more than doubled in 1976, and is expected to reach $3.3 billion this year, a further rise of more than 75 percent. This increase reflects the importance of the Saudi market both for U.S. exports and as a source of petroleum. Saudi Arabia in 1976 will have supplied more than $5 billion worth of crude and refined petroleum products to the United States.

Saudi Arabia's rising oil revenues continue to fuel a rapidly expanded economy led largely by major development projects being carried out under the Five-Year Development Program (1975-80). This trend is being matched by a corresponding expansion in the private sector. Despite the current boom, there are signs that the country's limited infrastructure (especially transportation), labor shortages, and a high rate of inflation will have a limiting effect on the pace of future development. However, the problems facing the Saudi Government are symptomatic of rapid growth and offer excellent opportunities for U.S. business. Best prospects appear to be in construction equipment, building materials, petrochemical, and other energy related equipment, office equipment and small computers.

Saudi Arabia's economic prospects are strong. Even on the basis of controlled production at less than 8.2 million barrels per day (bpd), Saudi revenue from crude oil totaled $14.5 billion for the first six months of 1976. The second half will show a healthy increase as production rose in the second half to a rate of 9.2 million bpd by the end of December 1976. The recent decision of the Saudis to limit their price increase to 5 percent, compared with a 10 percent increase set by the majority of OPEC countries, will result in additional revenues derived from the attractive price break of Saudi crude, and the ability of the Saudis to increase production to 11.5 million bpd by the end of 1977.

These oil revenues fuel a market paced by private and government construction. In the coming year, several major projects will be undertaken—the industrial complexes at Jubail on the east coast, the industrial complex on the west coast at Yenbo, and the preliminary construction phases on the gas collection facility in the east coast fields. The private sector will continue to expand, with the greatest area of development in residential housing. Specific areas for sales include heavy construction equipment, such as earthmoving machinery and cranes; and prefabricated building systems, especially in residential housing, and building systems offering significant saving in labor.

Office equipment, including small computers, is an expanding market. Equipment which offers flexibility and savings in the use of trained personnel is attractive to the Saudi customer. There are not enough trained clerical and administrative personnel in Saudi Arabia to handle current demands, many of which can be filled through use of computers.

Other areas with sales potential are transportation equipment such as light and heavy trucks, electric power and distribution equipment, hospital supplies and management, and a wide range of

Saudi Arabia

Comparable data are not available for recent competitive market share comparisons; some major trading nations report the following totals on their exports to Saudi Arabia:

U.S., Jan.-Nov. 1976, $2,437 million
Japan, Jan.-Sept. 1976, $1,426 million
Germany, Jan.-Sept. 1976, $809 million
U.K., Jan.-Oct. 1976, $572 million
Italy, Jan.-Aug. 1976, $339 million
France, Jan.-July 1976, $188 million

U.S. imports from Saudi Arabia, Jan.-Nov. 1976, were $4,717 million.

communication equipment. A more specialized market exists for sales of executive and light aircraft. The expanding foreign labor force noted above will offer an increasingly good market for sales of foodstuffs of all types. Finally, the growing Saudi middle class plus the foreign labor force should develop into a solid market for a wide range of consumer goods and appliances.

The government through the Saudi Industrial Development Fund (SIDF) is encouraging the private sector to establish industries to meet the needs of the local market. SIDF offers long-term, low-interest loans and a five-year tax holiday from Saudi corporate taxes. Prospects for joint ventures by U.S. firms in cooperation with Saudi partners appear good.

Marketing and selling in Saudi Arabia is not easy. The Saudi customer is not attracted by catalogs and other project literature. Selling requires repeated personal visits to the customer; the Saudi has to develop confidence in both the seller and his product before committing himself to major purchases. Patience, tact and perseverance are the most important qualities that the U.S. businessman can bring to this ever expanding and dynamic market.

UNITED ARAB EMIRATES

Economic Boom Moderates, But Market Still Alluring

The United Arab Emirates (UAE), a federation of seven states, has experienced several years of very rapid economic expansion. The country is heavily dependent on imports to fuel this expansion, and a substantial market has developed for U.S. goods and services, according to S. Dickson Tenney of the Bureau of International Commerce. U.S. exports increased from a relatively minor $70 million in 1972 to approximately $400 million in 1976 and are projected to reach $465 million in 1977.

Although the economic boom appears to be moderating somewhat, the outlook for this year is continued expansion with an accompanying increase in demand for imports. Prospects are particularly bright for U.S. consulting and construction firms, despite strong competition from other countries, with the UAE planning to announce major design and construction tenders for several infrastructure and industrial projects, including roads, ports, airports, petrochemical plants and aluminum smelters. Firms which supply products for these projects, especially navigation and air traffic control equipment, will have a promising market. Demand will also be strong for products ranging from materials handling to filtration and purification equipment, as well as for products in the oil, power generation and sewerage equipment fields.

U.A.E.

Comparable data are not available for recent competitive market share comparisons; some major trading nations report the following totals on their exports to the United Arab Emirates:

U.S., Jan.-Nov. 1976, $370 million
U.K., Jan.-Oct. 1976, $453 million (Abu Dhabi and Dubai only)
Japan, Jan.-Sept. 1976, $438 million
Germany, Jan.-Sept. 1976, $154 million
France, Jan.-July 1976, $103 million
Italy, Jan. Aug. 1976, $77 million

U.S. imports from UAE, Jan.-Nov. 1976, were $1,191 million.

Firms with offices, representatives or joint ventures in the UAE will have an edge in tender competition for design and construction projects. These firms are able to obtain early and more complete information about the projects and both the UAE Government and private firms prefer to do business with individuals they know personally. However, purchasing decisions for goods to supply the projects are usually made in the U.S. and European offices of the prime contractors; firms wishing to sell equipment should contact these offices before visiting the UAE.

Industrialization continues to be the major goal of the two better known Emirates, Abu Dhabi and Dubai. Efforts are now pointed towards development of their new industrial cities, with planning farthest advanced on Jebel Ali in Dubai—one of the major stumbling blocks, the financial package, has reportedly been resolved. Dubai has already awarded design and construction contracts through negotiation, not public tender, for work on the aluminum smelter and power and desalination plants.

Opportunities still exist for design and construction of an international airport, at least 60 warehouses and other onshore facilities for the container section of the new port, housing and facilities for a city of 25,000, and a road complex for the area. Plans for the new industrial city in Abu Dhabi, Jebel Dhanna, have not advanced as far. However, the government has announced that selected consultants will be invited to submit designs for the onshore LPG project, a plant to be fueled from the Emirates's large reserves of natural gas. Once work begins in earnest on this plant and on other projects such as a fertilizer plant, aluminum smelter and polyethylene plant, considerable opportunities will open up for firms to build the infrastructure and housing for a city of 80,000.

Sharjah, meanwhile, continues to make an impressive effort to lure capital intensive and "brain intensive" firms to the Emirate. To make the State more attractive as a commercial center and a base of Near East operations, it has been decreed that firms do not need local partners to open an office—a welcome contrast to nearby countries which frequently require partial local ownership of offices. To further its goal of becoming a major freight handling center, Sharjah has engaged a management organization to integrate the operations of the two fully equipped container berths at the port with the fully containerized airport handling facility which opened this month. Sharjah is also encouraging the development of tourist facilities and sponsored the transfer of a major Beirut school to Sharjah to serve primary and secondary local and boarding students.

IRAQ

New Five-Year Plan Offers Good Business Opportunities

Iraq continues to offer significant export opportunities for American firms willing to make the effort required to penetrate this growing but sometimes difficult market. As oil production regains its previous levels and the delayed Five-Year Plan is finally launched, the potential market for U.S. goods and technology could be very large. However, realization of this potential may be difficult because of special problems facing American exporters, including the lack of formal U.S. diplomatic relations with Iraq.

Swelled by the delivery of several aircraft, U.S. exports climbed in 1976, bucking a trend of stagnating exports for most of Iraq's suppliers. While the rate of increase may not continue at the accelerated pace of recent years, there are excellent prospects for sales of agricultural products, building supplies, motor vehicles, electric power systems, communication equipment, construction equipment, agricultural equipment, computers, textile machinery, metalworking equipment, oilfield equipment, and health service equipment.

Proven petroleum reserves in Iraq are only 35 billion barrels but some estimates of total reserves run as high as 100 billion barrels. The higher figure would give Iraq the second largest reserves in the Near East and fuel an economy that

would continue to expand significantly.

A temporary drop in oil production in the spring of 1976 forced Iraq to curtail imports, put a hold on several major projects, and postpone publication of the 1976-80 Five-Year Plan. Production has now recovered, and the plan is expected to be released shortly, setting the stage for a large investment program which will offer new opportunities for export sales. Although exact figures are not available, expenditures under the plan are expected to total around $35 billion, with priority on the development of human resources, including education, housing, transport, agriculture and communications. There will also be large projects in land reclamation, integrated farming and irrigation; engineering; iron and steel, petrochemicals, and other industries; power generation; telecommunications; and rail and road transportation. The Iraqi economy is heavily state controlled and most business is conducted by state organizations and companies, which control about 90 percent of imports. There is a small private sector in construction, textiles, tourism and other areas.

While only a few U.S. firms have won major contracts thus far, others have been successful as subcontractors and suppliers to third-country firms. Of particular interest is the possibility of working with Yugoslav companies, which have contracts totaling $1 billion. These companies have expressed interest in cooperating with U.S. suppliers.

Foreign suppliers are having some difficulty complying with Law Number 8 of February 1976, which prohibits the use of agents when dealing with government organizations and requires registering agency agreements and guaranteeing the agent's performance. The law is in the process of interpretation and review, but until the situation is clarified, companies will have to increase direct contacts with the Iraqi Government and arrange more frequent visits to the country.

Iraq

Comparable data are not available for recent competitive market share comparisons; some major trading nations report the following totals on their exports to Iraq:

U.S., Jan.-Nov. 1976, $45 million
Germany, Jan.-Sept. 1976, $669 million
Japan, Jan.-Sept. 1976, $476 million
France, Jan.-July 1976, $278 million
U.K., Jan.-Oct. 1976, $234 million
Italy, Jan.-Aug. 1976, $179 million

U.S. imports from Iraq, Jan.-Nov. 1976, were $4 million.

LIBYAN ARAB REPUBLIC

Agriculture, Industry Offer Opportunities

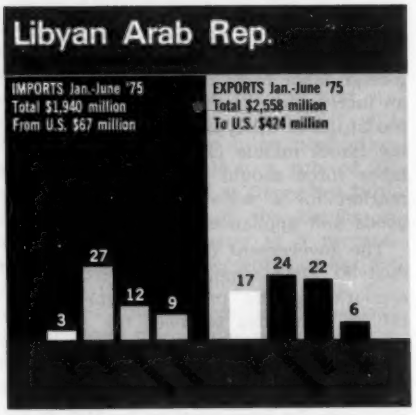
The dynamic Libyan economy, featuring large capital reserves and a continued rapid pace in development spending, offers substantial sales and contracting opportunities in all sectors, according to Claude Clement of the Bureau of International Commerce. Although marketing conditions in Libya can pose difficulties for foreign firms, the potential rewards are plentiful for those who persevere. U.S. exports to Libya in 1977 are expected to increase 18 percent over the alltime high reached last year.

The Libyan Arab Republic has entered the second year of its 1976-80 Development Plan, which projects total government spending of $24 billion over the five-year period. The 1977 development budget of $5.1 billion stresses agriculture (particularly irrigation and other water works), mining and manufacturing, housing, education and municipal improvements.

Oil is the key to the Libyan economy and to the success of its ambitious development plans. Crude petroleum exports account for almost all foreign earnings and the bulk of government revenues. While production dropped in 1974 and 1975, it stabilized during 1976 at 2 million barrels per day (bpd). As world demand for Libyan light low-sulphur crude continues to increase, the government is urging the oil companies to maintain production at 2.3 million bpd over the next two years. Oil earnings already exceed both importing needs and capacities, thus ensuring a strong liquidity position (foreign exchange reserves stood at more than $2.5 billion in August).

The composition of Libya's rapidly growing imports, which totaled an estimated $4.5 billion in 1975, has remained generally unchanged in recent years. Machinery and transport equipment is the largest category, followed closely by manufactured goods and foodstuffs. Italy continues to be Libya's most important supplier, accounting for about one-quarter of imports, and its share has risen along with those of Germany and Japan. Other leading suppliers to the country are France, the United Kingdom and the United States.

The best market prospects for American exporters are for sales of equipment and services related to Libya's development program. Government expenditures under the current five-year plan include $5.6 billion for industry, mines and hydrocarbons; $2.6 billion each for agricultural development and for housing,



including three prefabricated manufacturing plants and 70,000 new housing units; $2.1 billion for communications and transport; and $1.8 billion each for education, electricity and municipal development. Industrial projects include a $1 billion iron and steel complex at Misurata, including power and desalination plants, housing and port facilities; $152 million for food processing plants; and $74 million for eight textile plants.

Since 1975, increasing signs of government control over the economy have caused a general loss of confidence in the Libyan private sector, resulting in a drop in investment spending and a reluctance to make long-term commitments. There are indications that the economic slowdown in the private sector is now over and that growth prospects for 1977 are excellent. The principal growth constraints still facing Libya include deficiencies in the country's managerial and physical infrastructure and severe manpower shortages.

MOROCCO

Development Accelerates; Major Projects Beckon

The outlook for the Moroccan economy, as well as for U.S. export opportunities in Morocco, is excellent, according to Arthur Laemmerzahl of the Bureau of International Commerce.

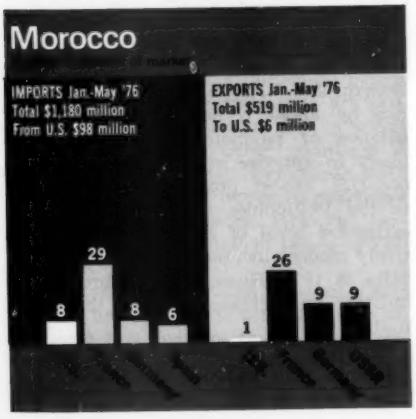
Careful fiscal and monetary management, record earnings from tourism, improved earnings from Moroccan workers abroad, an excellent crop year, and the desire to devote additional resources to economic development all point toward a period of promising growth ahead. U.S. exports to Morocco jumped by almost 50 percent in 1976 over 1975. Modest growth of about 5 percent is expected in 1977, however, as Morocco's imports of United States agricultural products are likely to slacken.

A few problems remain — the short-term outlook for phosphate exports does not include any major growth in earnings, the acquisition of part of the former Spanish Sahara has so far cost more than it has produced, and 10 percent inflation could continue in 1977. Nevertheless, the government has shown that, with sound management of the economy, progress towards economic development need not suffer, and external financing can be attracted.

The number of public works programs presently under way in Morocco is at an alltime high. A determined Moroccan development program is providing opportunities for U.S. business in various fields, including steel production, port development, petrochemicals and railway transportation. In particular, work is going ahead on such important projects as the Nador steel mill on Morocco's Mediterranean coast, the 15,400-hectare Doukkala irrigation project, and the Jorf Lasfar port development and petrochemicals project. King Hassan's recent announcement of Morocco's intention to erect a nuclear power plant ought to be of interest to U.S. firms. In the private sector, Morocco's booming tourist industry should result in leads for U.S. recreational and catering equipment. The demand for machine tools, materials handling equipment, and textile machinery also ought to increase, along with anticipated growth in Morocco's industrial sector.

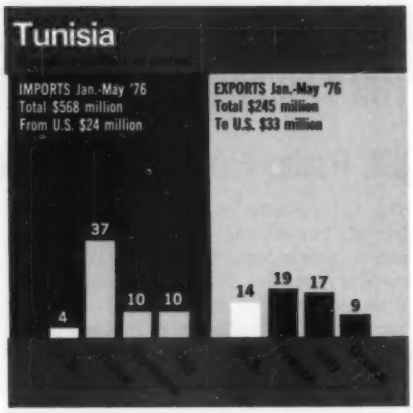
A GNP growth rate of approximately 6 percent in real terms is expected in 1977, the last year of the current five-year plan. A new development plan for the period 1978-1982 is now being prepared.

Moroccan officials have on many occasions stressed their desire for enhanced U.S.-Moroccan economic relations. Although the European Community gives preferences to Moroccan products, Morocco grants no reverse preferences and would prefer not to become overly dependent on any one country or group of countries. The United States has benefitted from this attitude, and the U.S. share of the Moroccan market for 1976 may have exceeded 10 percent, compared with 7.7 percent in 1975.



The Moroccan Government has also recently taken new initiatives to attract American investment. Indeed, Moroccan investment policies are viewed as highly favorable toward the import of capital, particularly for export-oriented industries.

The Department of Commerce plans a number of trade promotion events for Morocco, chief among which is participation in the Casablanca International Trade Fair, April 28-May 15 (for information, please contact the American Consulate General in Casablanca). Other events include an agricultural machinery catalog show (Feb. 23-March 3) and a machine tools catalog show in November.



TUNISIA

New Development Program Spurs Economic Activity

The outlook for exports of U.S. goods and services to Tunisia this year appears bright to Claude Clement of the Bureau of International Commerce. Although U.S.-Tunisian trade registered only modest growth last year, U.S. sales this year to this small but friendly market are expected to climb almost 20 percent.

This projection is based on increased government spending, as Tunisia enters the first year of its Fifth Development Plan (1977-81). Total public and private investments will approach $10 billion during the five-year period, or more than triple the investments during the previous plan (1973-76). The plan aims at bringing the Tunisian economy to the "take-off" point: by creating over 250,000 jobs, achieving an annual GNP growth rate of 7.5 percent, reaching net agricultural self-sufficiency, and ending dependence on concessional foreign assistance.

The program calls for investment of $3.3 billion in the country's infrastructure, with major expenditures for transportation and communications ($1.41 billion, including $571 million for roads and $317 million for air transportation); education and training ($282 million); health ($188 million); sanitation ($141 million); and rural development ($235 million).

Planned investment in agriculture will reach $1.18 billion, almost half ($521 million) of which is slated for irrigation. Other major investments are planned in livestock ($141 million), orchards ($130 million), and fishing ($103 million).

The plan allocates two-thirds of total investment for the industrial sector, with approximately $2.2 billion to be invested in manufacturing. Projects totaling $1.2 billion have already been identified, mainly in cement manufacturing and phosphate processing. Significant amounts of investment are also to take place in iron smelting and metallurgy ($494 million), and in textiles ($235 million). Mining investment will be almost entirely devoted to further exploitation of phosphates ($256 million of $282 million). Plans for energy include developing the Miskar offshore gas field ($583 million), electric power generation and distribution ($494 million, including $118 million for the Sousse power project), petroleum exploration and development ($475 million, mostly from foreign countries), and a new refinery ($118 million).

Since the development plan will provide guidance for the Tunisian economy through the next five years, U.S. participation in implementation of the plan was a prime concern at last October's meeting of the U.S.-Tunisian Joint Commission in Washington. The Tunisians, who feel agriculture is the sector where U.S. assistance can be most helpful, suggested several joint projects in areas including livestock, corn and barley, the training of staff for agricultural institutions, rural electrification, and irrigation.

The Tunisian Government has an active program to stimulate private foreign investment in the industrial sector. In addition, an offshore banking law has recently been passed which provides for the establishment in Tunisia of non-resident entities (offshore banks) to carry out deposit and lending transactions with non-resident investors. The tax advantages granted by the law to the offshore banks include a waiver of business income taxes for ten years.

Scheduled to visit Tunisia in early 1977 are a Commerce-sponsored technical sales seminar on port development and a catalog show on agricultural machinery. Additional Commerce promotional activities in 1977/78 include technical sales seminars on electrical data processing equipment, mining equipment, and building and construction equipment.

ECONOMIC RELIEF FORTHCOMING FOR FAR EAST-SOUTH ASIA

U.S. Trading Partners Pulling Out Of Downturn

The adverse effects of unemployment, inflation, balance of payments difficulties, and a prolonged pause in the economic recovery of the Western industrial nations continue in the economies of the Far East and South Asia. However, several Asian countries seem to be staging a noticeable recovery, and they may lead the area in a more general pattern of growth for the region during 1977, according to Thomas R. Jacka of the Bureau of International Commerce.

In most of the region, with the exception of Australia, New Zealand and India, which have failed to recover from stagnant conditions during 1976, the economies registered an upturn which is projected to strengthen somewhat in 1977.

Energy costs and a continued pause in the recovery of some of the Western economies could conceivably dampen the recovery in some countries of the region, but current available data indicate overall U.S. exports in 1977 will reach $24.5 billion, a 7.1 percent increase over last year.

Japan continued to be the region's largest supplier of goods and the United States' major trading competitor for the Far East market. Several major markets, notably Korea, Indonesia and Malaysia, appear to be diversifying their sources of imports. This development could prove advantageous to American exporters.

Sales opportunities to expand

The dollar value of imports and exports of industrial areas has increased, though in real terms this growth has been minimal. The recovery that is expected to continue through 1977 will mean a healthy upswing in consumer spending in this region as real income picks up, providing opportunities for increased U.S. sales, with the exception of further increased energy costs that may fuel inflation.

This year should see moderate sustained growth in most of the economies, with exceptional growth projected in Indonesia and Hong Kong.

In Japan, although the first quarter of 1976 indicated a notable upturn in the economy over the recessionary period of 1975, overall recovery was not as strong as predicted. With the pattern of imbalanced energy costs, prospects are dampened for significant improvement in U.S. exports to Japan in 1977. U.S. exports are projected to reach $10.6 billion, or a level similar to that of 1974. Despite these negative economic factors, predictions for 1977 center around a 6 percent level of increase.

Regarding Australia, the current tenuous economic situation resulting from the government's past economic policies makes it difficult to be optimistic concerning the potential for U.S. exports. A continued slackening in economic activity, shrinking domestic demand, devaluation and a scarcity of capital inflow make short-term prospects for Australia uncertain. Any improvement in the prospect for U.S. exports to Australia in 1977 will almost wholly depend on the pace of recovery in the Australian economy. Although this economic recovery will at best be slow, United States exports should retain their market share in Australia.

Korean prospects remain favorable

Korean prospects remain favorable in 1977, and Korea is expected to rank (in competition with Taiwan) as the second largest market for U.S. exports to this region. Projections indicate that U.S. exports may reach the $2 billion level in 1977, a gain of nearly 9 percent over 1976.

Two factors contributing to this improvement are the growth of the Korean economy, at a rate in excess of 12 percent during 1976 fueled by a 50 percent increase in Korean exports, and a desire by Korea to decrease its import dependence on Japan. This export boom has also produced a notable improvement in the Korean balance of payments situation, which is another favorable factor affecting U.S. exporters.

In Taiwan in 1977 the United States should see better sales prospects, with emphasis on certain categories of consumer and capital goods. A probable GNP growth rate of 11 percent is indicated, with improvement in the balance of payments situation and debt servicing capability. U.S. sales to Taiwan in 1976 are estimated at near the $1.7 billion level, and in 1977 are expected to reach $1.9 billion.

Singapore's greater stability and brighter market prospects during the last few years are expected to carry over into 1977. Having developed into the region's major petroleum refining and distribution center, the economy is now settling into an industrial one with more modest, but stable, growth rates. Last year proved to be another banner one for U.S. exporters, with sales probably topping $1 billion; projections for 1977 indicate a $1.1 billion level.

Factors influencing the U.S. market position include Singapore's continuing growth and favorable balance of payments position, demand for capital goods, and the absence of major problems such as inflation and unemployment. With the continued diversification of its industrial base, Singapore will move towards more measured growth rates as it joins the ranks of industrialized nations.

Good year for Hong Kong

After experiencing a recession in 1975, the Hong Kong economy rebounded significantly in 1976, registering an extremely vigorous year. This year should develop into a prosperous one for Hong Kong, providing that Western economic recovery is not set back by higher oil prices. During 1976, imports increased about 30 percent over 1975. U.S. exports to Hong Kong in 1976 are estimated to have reached $1.1 billion, with a projected increase in 1977 to $1.4 billion. Positive factors influencing U.S. exports are the relative absence of inflation in the Hong Kong market, more responsible policies of government expenditure, and a rapidly growing market for consumer goods.

U.S. exports are projected to increase rapidly to oil-exporting Indonesia. Higher export earnings due to the continued high price of oil exports, a recovery in the prices of non-oil exports, continuing high levels of foreign economic aid, and continued high levels of foreign investment all are contributing factors to an expected increase in U.S. sales. Its foreign trade outlook will improve considerably now that worldwide recession seems to have abetted, and the debt problems of 1975 seem to be on a corrective course. U.S. exports in 1976 probably surpassed $1 billion, a rise of 30 percent over 1975, and are projected to reach $1.4 billion in 1977, a further increase of 35 percent.

The United States continues to be the leading supplier of goods to the Philippines. Adverse conditions and trade setbacks had been experienced in the recession of 1975, but last year showed a slow but steady return to more stable growth, and GNP in 1977 is projected to rise by about 6 percent. The adverse balance of payments situation is not likely to improve in 1977, thus dampening U.S. export prospects. U.S. exports to the Philippines in 1976 were at an estimated level of $845 million, a relatively modest increase in terms of dollar sales in 1975. However, 1977 projections indicate an increase to more than $900 million.

Creation of a new government in Thailand may improve the market picture there for U.S. exporters. The 1976

growth rate of 6 percent is expected to improve in 1977, along with the level of foreign exchange reserves and balance of payments situation. U.S. exports to Thailand are estimated to have declined to $320 million in 1976, but are projected to register a slight increase in 1977 to a level of $334 million. Recent discoveries of gas in the Bay of Thailand could brighten the economic prospects considerably.

The Indian economic situation appears to have improved in late 1976, with prospects for 1977 indicating broad based economic growth. Because India appears to have built up substantial foodgrain stocks, U.S. exports of these products are expected to decline. U.S. exports to India in 1976 are estimated to have reached $1.1 billion (a decrease from 1975), with $1 billion projected for 1977. Although U.S. exports of foodstuffs will decline, a good market exists in India for high technology equipment as well as capital goods.

In Pakistan, with the United States continuing as the main supplier, U.S. exports in 1976 probably reached $400 million. Projections indicate a 12 percent rise to $450 million in 1977, despite the very favorable Pakistan foodgrain harvests. A reduction in imports of U.S. foodgrains will be offset by Pakistan's purchases of industrial and transportation equipment, made possible by external financial assistance.

Malaysia is an exception

The remainder of the countries in the region are of economic importance but account for a more modest portion of total U.S. trade and investment. The exception to this is Malaysia, an active and developing market attractive to U.S. exporters because of its economic growth and high export earnings. U.S. sales may reach $735 million in 1977. Malaysia's attractiveness as a market is due to continued expansion in exports, with this thrust from the external sector inducing increased domestic spending. Both domestic and foreign investment are expected to increase, although the rate of inflation has remained low (at about 4-5 percent).

Despite the government's efforts to slow down imports, and increased prices, U.S. shipments to New Zealand are projected at $400 million for 1977, a slight decrease from 1976. Other countries in the region (excepting Indochina) will show varying rates of increased purchases from the United States, large in percentage terms but small in terms of dollar value.

In total, these smaller nations could account for another $1.4 billion, increasing total U.S. exports to the Far East-South Asia region to approximately $24.5 billion.

JAPAN

Economy Is Faltering Again After Spurt Early Last Year

Japan's remarkable first-quarter 1976 economic spurt failed to maintain momentum and the economy once more is faltering, according to Arthur Miyakawa of the Bureau of International Commerce. A somewhat uneven and spotty recovery picture has become evident, contradicting earlier predictions that Japan finally had pulled out of its most stubborn and longest recession and was progressing toward full recovery. Most forecasts now reflect considerably less optimism.

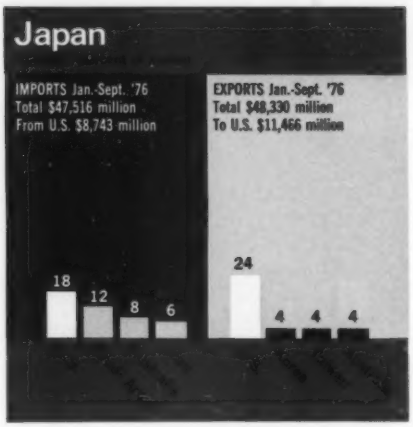
Real GNP, which grew 3.3 percent during the first quarter of 1976, fell to 1.3 percent during the second quarter and still further to 0.3 percent during the third quarter. Earlier, some hope of recovery was indicated for the final quarter.

The prestigious Japan Economic Research Council, for example, forecast an increase of 5.1 percent for the last quarter based on continued increase in exports, greater personal consumption, and more private investment. The forecast also predicted a trade surplus of $10.7 billion, with a current account surplus totaling $4.3 billion.

Early real growth predictions covering 1977 are centered around 6 percent, reflecting a somewhat rosy outlook. Despite these optimistic predictions, many hard-headed Japanese businessmen, who earlier were looking ahead one year to recovery, now are questioning Japan's economic staying power under present conditions. They fear a renewal of stagnation, especially in view of increased oil prices, current trade problems with the EEC countries, and the outstanding fisheries and dumping questions with the United States.

According to a survey conducted by the Bank of Japan last August, covering 1,370 firms capitalized at $3.5 million or more, private investment, which is a reflection of business confidence, was expected to increase about 16 percent in 1976 over 1975 to $30.2 billion. The increase now, however, may total only $27.3 billion during 1977. Should this prove true, it could exert a multiple downward pressure on the economy. These negative factors to date have not been overcome by the government's seven-point economic recovery program announced last November, which could begin to show some effects during the latter half of 1977. Domestic activities of the new program will be supported by continued promotion of plant exports.

A gradual easing is expected in wholesale price pressures, with an annual increase of less than 6.5 percent during the July 1976-March 1977 period. The annual rise in the consumer price index during the same period is expected to be under 10 percent, falling below 8 percent by late 1977 or early 1978.



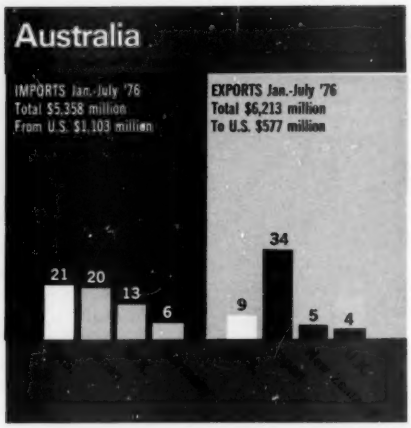
Chief U.S. exports to Japan have changed little over the years and remain concentrated in the agricultural, forestry, chemical, industrial raw materials, machinery, and scientific and optical instruments sectors.

Because of an imbalance in the bilateral trade growth rate, the U.S. deficit with Japan was increasing substantially in 1976 over the comparable 1975 period. This trend pointed toward a 1976 deficit that could reach $5.5 billion. Furthermore, the U.S. share of Japan's import market continued to deteriorate, eroding from 28 percent in 1966 to an estimated 18 percent last year. The U.S. share of Japan's exports showed a similar trend, falling from 30 to 24 percent over the same period.

Japanese industry continues to stress greater productivity through automation, indicating that among the best U.S. export prospects are such industrial categories as computers, components, peripheral equipment, testing and measuring equipment, process control instruments, and a wide variety of both durable and nondurable consumer goods.

All of Japan's inward foreign direct investments have been liberalized except for the following sectors which remain under control: agriculture, forestry and fishery; oil refining and distribution; leather and leather products; and mining. Investment controls over the manufacture of fruit juices and photographic film were removed earlier last year.

Among exhibitions proposed for the U.S. Trade Center in Tokyo during 1977 are: printing and graphic arts; building products and construction equipment; laboratory instruments; electronic components; business equipment; and aids to the handicapped.



AUSTRALIA

Prospects For U.S. Exports Depend On Economic Revival

After Australia works out its post-devaluation problems, the outlook will be promising, according to Myra L. Triplett of the Bureau of International Commerce. At this point, the horizon is clouded by projections of a 15-17 percent inflation rate, a government budget deficit running ahead of last year's and price pressures on all fronts. The GNP growth rate, if not negative, will likely not exceed 1 percent this year.

The government has taken aggressive measures to curb the inflationary trend. A monetary package was designed to soak up excess liquidity and, coincidentally, reduce pressure for devaluation of the Australian dollar. Measures included higher short and medium-term interest rates on government paper, the siphoning off of $200 million from the commercial banking system, and a directive to banks, savings and loan associations, and finance companies to cut back their lending. The government's basic fear was that the high growth rate of the money supply (averaging 11 percent for the past 12 months) threatened its anti-inflation program.

To some extent, time has proven these measures less than equal to the task. The Australian Government finally gave up its 11-month struggle to maintain the stability of the country's dollar. On Nov. 28, the government caught most observers by surprise with the announcement of a hefty 17.5 percent devaluation, accompanied by a package of deflationary measures, which included yet another hike in short-term interest rates, additional cuts in government spending and a tougher approach to wage increases. However, using a managed float, the Australian Government has so far instituted a series of small revaluations of the dollar, bringing the devaluation to 11.84 percent. The revaluations were made because speculation in the dollar had stopped since the November devaluation. Capital inflow had resumed and it was therefore appropriate to increase the value.

Unemployment has remained at close to record levels, with very little prospect for improvement. In December, the figure was up 5.4 percent, and November showed a 4.5 percent increase.

Australia has a liberal investment policy and some major initiatives have been undertaken to encourage foreign investment. However, the near-term response of investors will depend very much on the degree to which Australia is able to bring its costs closer to those of other countries, and the prospects for renewal of economic activity in the Australian and world economies.

The prospects for U.S. exports depend, as stated above, on revival of the Australian economy. Export performance among major categories was uneven last year. On the one hand, an increase was recorded for a number of major categories such as electrical machinery and appliances, chemical elements and compounds, professional and scientific instruments, road motor vehicles and parts, internal combustion engines, construction and mining machinery, and tractors. On the negative side, the value of U.S. exports of nonelectrical machinery and aircraft and parts fell. As Australian business begins to take advantage of recent investment incentives offered by the government, the sale of U.S.-made capital goods should increase.

In support of U.S. export sales to Australia, the Department of Commerce maintains a Trade Center in Sydney. Exhibitions scheduled for FY 1977 include: educational and training aids (March 28-April 1); outdoor, leisure and recreation equipment (May 2-6); security and safety equipment (July 11-15); marine electronics (Aug. 15-19); plastics production equipment (Sept. 26-30).

INDIA

Economic Recovery Continues; Inflationary Trends Have Eased

The overall economic situation in India is much better today than a year—or even six months—ago, Monroe Aderhold of the Bureau of International Commerce reports. The country has been notably successful in ameliorating inflationary trends, improving its balance of payments position and increasing exports. GNP at current prices is expected to increase at a 5 to 6 percent growth rate and reach an estimated $92 billion during 1977.

India is a major trading partner of the United States in South Asia. Two-way trade is estimated to have reached a level of around $1.9 billion in 1976 with U.S. exports totaling $1.3 billion. A downward trend for U.S. exports to the $1 billion level is anticipated in 1977, due primarily to reduced foodgrain shipments. U.S. exports to India during 1976 were predominantly on commercial terms.

Estimated total reserves, $2.7 billion in October 1976, may reach $3 billion in 1977. Enforcement of stringent policies against smuggling and illegal currency transactions, increased remittances from Indians living abroad, net foreign aid inflows, and steadily rising exports are mainly responsible for this much improved situation.

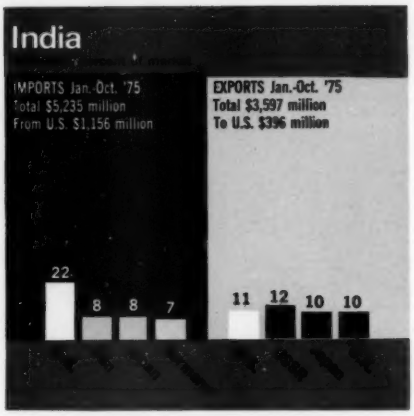
India's recent favorable trade balances are attributable to reduced foodgrain imports, maintaining realistic exchange rates and government policies which provide subsidies, preferential allocation of foreign exchange and other incentives to export-oriented industries.

Industrial growth is definitely upward—although certain sectors remain depressed—and overall conditions appear favorable for continued growth in the immediate future. Power availability and transportation are adequate to meet immediate industrial requirements and labor has remained cooperative. Equally important is a more favorable attitude of businessmen toward the government and its policies.

India's total merchandise imports for 1977 are expected to be in the $5.5 to $6 billion range. A manageable trade deficit is anticipated but it will be adequately covered by disbursements from the World Bank Group, and countries which comprise the AID to India Consortium. Strict import controls are still in effect and will continue for the foreseeable future.

Indian import policies are used to a large extent for attainment of economic development goals by providing support and incentives for specific sectors or production targets. A significant policy change occurred in October 1976 when authorities liberalized import restrictions for importation of capital goods, technology, industrial raw materials and other essential commodities required for new plants and expansion.

A good market exists in India for high technology equipment and items required for industries accorded a high priority for development such as petroleum production and distribution, mineral resources, thermal power plants, railways, telecommunications, fertilizer plants and electronics. Market potential also exists



for industrial, scientific and medical instrumentation, avionics, and health care equipment.

While guidelines and policies pertaining to foreign investment have been liberalized, the Indian Government remains very selective, but flexible. Emphasis is on export-oriented industries and acquiring sophisticated technology through joint ventures, licensing agreements or outright purchase.

The Indian Government is encouraging proposals and joint ventures which involve collaboration between Indian and U.S. firms for large scale industrial or infrastructure projects in third countries. U.S. contractors may find it to their advantage to utilize the large cadre of well trained professionals and technicians along with manufacturing capabilities that are available in India today. Detailed information concerning engineering and manufacturing capabilities is available from the Projects and Equipment Corporation of India Ltd., Suite 2655, One World Trade Center, New York, N.Y. 10048.

TAIWAN

Surge In Exports Propels Economy To High Growth

The first half of 1976 saw a surge in exports which may propel the Republic of China to an 11 percent growth rate this year, according to Peter Wilson of the Bureau of International Commerce.

Over the first several months of 1976 exports rose 55 percent and imports 29 percent above 1975 levels. Although a plateau in export growth has apparently been reached, there has been improvement in the balance of payments and foreign exchange reserves which should carry over into better sales prospects for U.S. manufacturers of certain types of consumer and capital goods.

By the beginning of the fourth quarter total two-way trade had exceeded that for all of 1975, and by the end of 1976 some $15 billion in foreign trade is estimated to have taken place. If exports reached their projected level of $7.8 billion (f.o.b.) and imports reached $7.2 billion (c.i.f.), the Republic of China would show a $600 million surplus as opposed to a deficit of the same amount the previous year. This achievement would be reflected in foreign exchange reserves exceeding $2.7 billion.

In contrast to 1975, it appears that the United States had a declining share of imports, 24 percent in 1976, versus 27.6 percent in 1975, while the value of U.S. exports increased by close to 10 percent. Japan had a surplus of more than a billion dollars in its trade with the Republic of China, while the United States had a deficit of approximately the same magnitude.

As an export-oriented country, Taiwan increasingly confines its imports to raw materials, 63 percent, and capital goods, 31 percent, while manufactures represent 87 percent of export goods and agricultural products now only 13 percent. U.S. agricultural exports to Taiwan, especially cotton, have declined, while exports of other raw materials and machinery exports have increased slightly.

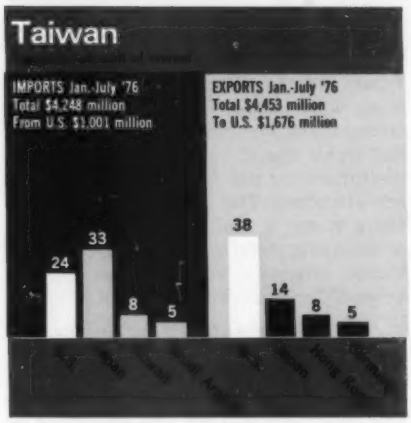
For the first half of 1976, leading U.S. exports were farm products (excluding cotton), at $242 million, up 5 percent from 1975; machinery, $212 million, up 15.9 percent; electrical equipment and supplies, $104 million, up 22.2 percent; textile products (including cotton), $50 million, up 1.6 percent; metals, $43 million, down 11.7 percent; and transportation equipment, $46 million, up 25 percent.

Prospects should be even better for U.S. exporters in 1977, due to the 1976 performance of Taiwan's economy. Inflation should stay below 7 percent, due to a tight money policy.

Even with the moderation of exports and economic growth in the final half of 1976, the prospects for sales of U.S. products are good. The high rate of utilization of productive facilities will necessitate new capital purchases and replenishing of stockpiles of raw materials.

Work will continue on ten major projects worth $6.6 billion, including railroad electrification, an integrated steel mill, highways, nuclear power plants, an airport, a petrochemical complex, and other projects designed to develop heavy industry and infrastructure. The new Six-Year Plan (1976-81), calls for an industrial growth rate of 9 percent, requiring substantial investments by the private sector as well.

Market research indicates that the best sales potential will be in building and



construction equipment, machine tools, hotel and restaurant equipment, automotive service equipment, food processing and packaging equipment, medical equipment and pollution control equipment. The U.S. Trade Center in Taipei has events scheduled for all these products in 1977 or 1978.

HONG KONG

Growth Will Continue But More Moderately

The Financial Secretary of Hong Kong in February last year predicted a 9 percent real growth in gross domestic product and 6 percent inflation for 1976. By September, the economic situation had improved faster than expected, and the official estimate was raised to 16 percent real, and 4 percent inflationary, growth. By the end of 1976, exports increased by 25 percent in value, tourist expenditure by 25, and net earning from exports of services by 50. For 1977, one can expect a respectable, but more normal rate of growth for Hong Kong, according to Harry Stringer of the Bureau of International Commerce.

Imports during 1976 were probably about 30 percent greater than in 1975. The prime suppliers were Japan, for textile yarn and fabrics, machinery and appliances, scientific instruments, watches, transport equipment, steel, plastic materials, and paper; China (PRC), for food, petroleum products and textile yarn and fabric; and the United States, for machinery, fruits and vegetables, unset diamonds, plastic materials, tobacco, textile yarn and fabric and raw cotton. The increase in imports was mainly attributable to increased demand for raw materials for production to satisfy the increase in export demand which should continue as world markets improve.

The climate for investment is extreme-

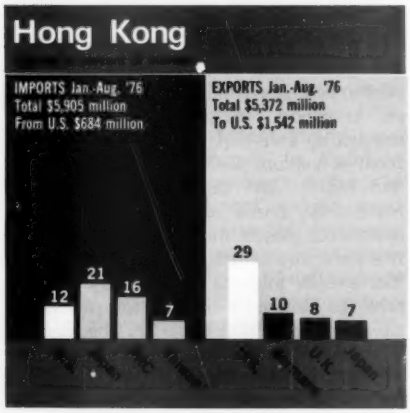
ly favorable in most respects. Freedom from government controls, relatively low taxes, highly skilled and productive labor force, and the central location of Hong Kong with respect to Asian markets are strong inducements. High cost of land and small size of the local market place limitations on the types of industry that are attracted. The current perception in Hong Kong is that the present balance of interests between the PRC and the United Kingdom will continue to preserve Hong Kong's status well into the future.

During 1976 the Hong Kong economy rebounded vigorously and, because it had experienced little inflation since mid-1974, was able to take full advantage of rising overseas demand. Trade is estimated to have grown by 25 percent in 1976. Hong Kong is a free and non-discriminatory market with trade restrictions or tariffs on only a few products. Consequently, sales in 1977 will go to the most competitive suppliers.

Now that government revenues have returned to high levels and the threat of another budget deficit has receded, there will be a speed-up in implementing public works programs, especially large scale housing construction. This should improve the market for engineering and design services as well as building materials, fixtures and appliances.

Other 1977 prospects for exporters include cotton, fruits and vegetables, poultry, wheat, and raw materials and machinery related to the manufacture of textiles, electronics, toys, and scientific instruments and watches. With its rising real income, Hong Kong is a rapidly growing market for consumer goods, such as air-conditioners, household furnishings and, despite its domestic textile industry, high fashion clothing and sportswear.

Upcoming U.S. trade promotional events will include a major trade fair of business equipment in April, and technical seminars on quality control in August, communications equipment in September, and electrical energy systems in October. The American Consulate General and the American Chamber of Commerce in Hong Kong are planning another "American Fortnight" of consumer goods sales for March 1978.



INDONESIA

Trade Prospects Improve As Economy Gains Strength

Indonesia's foreign trade outlook is improving materially, according to M. Virginia Webbert of the Bureau of International Commerce, as it pulls out of the setback caused by the worldwide recession and the unexpected financial difficulties in 1975 arising from debt problems of the state oil company, Pertamina.

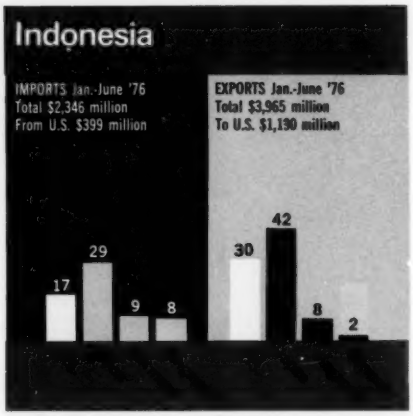
Gross exports, which in 1975 dropped by about 5 percent to $7,103 million, were running about 19 percent higher in the first half of 1976 than in the comparable period of 1975. Imports, which rose by 24 percent in 1975 to $4,770 million, were slightly lower in the first half of 1976 than in the first half of 1975. However, there are indications that they were recovering quickly in the second half of the year.

While balance of payments restraints are anticipated over the next few years, they may not be as serious as originally anticipated. Net foreign exchange reserves, which fell to $557 million at the end of March, rose to $1.5 billion in mid-November. This reflected mainly relief from the unanticipated debt payments for Pertamina required in 1975, but also the better than expected performance in non-oil exports in 1976 and an increase in the government's share of petroleum revenues following renegotiation of contracts with the foreign oil companies.

If Indonesia's foreign reserve position continues to improve, the government should be able to stretch out its debt service burden, now expected to peak at around 19 percent in 1979, and relax the rather tight capital spending controls it has imposed on all government ministries. Much depends on continued recovery from the world recession.

In 1976/77 (Indonesia's fiscal year ends March 31), Indonesia will receive $1.4 million in concessional and semi-concessional aid (the United States will provide over $100 million) and $1 billion in commercial credits.

U.S. exports were about $1 billion in 1976, nearly 30 percent higher than in 1975; U.S. imports (more than 80 percent in oil), rose more than 30 percent to about $3 billion.



Machinery and transport equipment comprised over 60 percent of total U.S. exports to Indonesia in 1976 and agricultural products—mainly rice, wheat and cotton—around 20 percent. Best sales prospects include equipment for agricultural, food, and wood processing; construction, mining and materials handling equipment; electric power equipment; and textile machinery.

A U.S. exhibition of agricultural and food processing equipment is scheduled for Jakarta in August. Also, Commerce will release shortly a study entitled *Indonesia: A Survey of U.S. Business Opportunities*, which will describe opportunities in 14 major economic sectors.

KOREA

Another Successful Year Is Forecast For Economy

Despite some modest signs of a leveling-off in export demand toward year-end, probably in response to the slowed pace of recovery in the industrialized countries, 1976 was one of the most successful years in Korea's economic history. In almost all areas, progress was remarkable and results exceeded—often by substantial margins—targets laid down for the year by the Economic Planning Board. Prospects for 1977 remain quite favorable, adds C. Michael Schneider of the Bureau of International Commerce, and it appears likely that real GNP growth will exceed the 9 percent rise projected in the newly-begun Fourth Five-Year Plan (1977-81).

For the first half of 1976 real GNP was up 17.4 percent over the corresponding period in 1975. For the entire year, the economy almost certainly exceeded by several percentage points the official projection of 12 percent. Per capita GNP, which stood at $530 at the end of 1975, climbed quickly to nearly $700

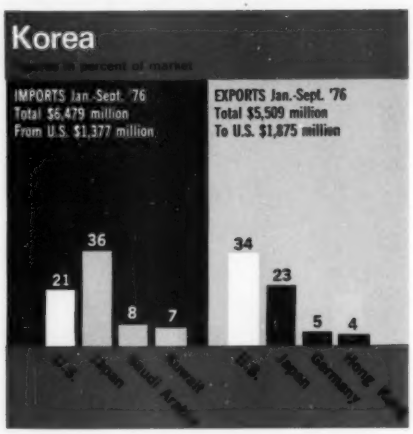
during 1976. Industrial production rose sharply during the year.

Another exceedingly positive aspect of the Korean performance during 1976 was the reduction of inflation to less than half the 1975 rate of 26.3 percent. The result for the year just ended will be close to the target of 12 percent, and Korean policymakers are looking to lower the rate still further in 1977 to 7 percent. Existing inflationary pressures, suppressed during 1976, will require close monitoring, however, if the 1977 goal is to be met.

Exports have been the most important factor in the Korean surge. By the end of September, on the basis of letter-of-credit arrivals, they had already exceeded the 1975 figure of just over $5 billion. The total for the entire year probably approached $7.7 billion. With imports estimated at approximately $8.1 billion, the Korean trade deficit of roughly $400 million was down dramatically from the previous year's figure of $1.7 billion. The U.S. share of Korean imports may have reached $1.8 billion, or 22 percent.

The export boom also produced remarkable improvement in the Korean balance of payments situation, which holds very favorable implications for U.S. exporters. With increased funds available for imports in key sectors (iron and steel, machinery, electronics, chemicals and textiles), sales opportunities for a wide range of advanced industrial machinery and high quality capital equipment are developing.

Best prospects for increased U.S. exports to Korea thus exist in the following product categories: machine tools and metalworking equipment; process control instrumentation; electronics production and test equipment and advanced electronic components; energy systems; scientific and laboratory instruments; textiles and apparel machinery; health care equipment and systems; computers and peripherals; pollution control, food processing and packaging, and printing and graphic arts equipment.



NEW ZEALAND

Recovery Seen As Exports, Exchange Reserves Increase

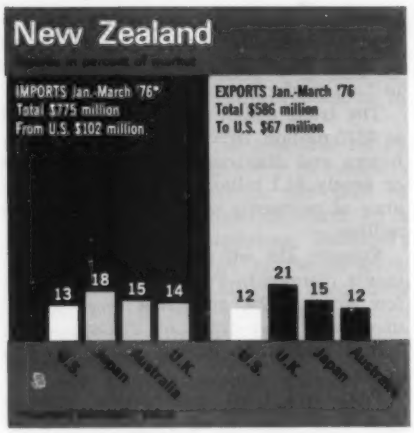
Although U.S. firms enjoyed a record level of exports to New Zealand in 1975, they now face mounting market competition and government policies designed to slow imports. Nonetheless U.S. firms can maintain their market share if they aggressively pursue opportunities and continue to compete on the basis of quality, price, delivery time, and service, Robert M. McLaughlin of the Bureau of International Commerce reports.

New Zealand was doubly burdened in 1974/75 by rising import prices and declining export receipts. The resulting balance of trade deficit (an estimated $237 million for the year ending in June 1976) coupled with a record rate of inflation (18 percent) and a high government budget deficit ($1 billion) forced national government action. To curb imports, licensing and deposit policies as well as sales taxes were adopted. Government expenditures were drastically reduced. At the same time, attractive incentives, such as investment and depreciation allowances for new plant, were offered to industries to increase production for export. On the anti-inflation front, wages, prices, and rents were temporarily frozen.

The effects of these policies are evident. Export receipts rose by around 50 percent over the previous year. The balance of trade deficit slowed considerably and official foreign exchange reserves increased to $572 million. The national government reduced the deficit of the expenditure budget by $550 million.

Additional signs of economic recovery have appeared. The New Zealand Institute of Economic Research predicts that inflation will drop to 13 percent. Pastoral export earnings, after a low in 1974/75, rose to new highs in 1975/76 and should continue to grow. Perhaps the brightest outlook is for manufactured exports which continue their steady and impressive rise (up 265 percent since 1973). These products now account for 23 percent of total export earnings. Substantial expansion is expected in this sector. Forest products also can be expected to contribute to export growth, having jumped 36 percent to account for 8 percent of exports.

But the current economic situation does not warrant unbounded optimism. Unemployment, though still very low in international terms (below 1 percent through May 1976) has begun to rise. Production is expected to drop by 2 percent. New official borrowing, over the $800 million mark in the year ending June 1976, will be necessary to cover



growing invisibles deficits comprised of foreign debt payments and freight on exports. Building construction and investment are down and excess industrial capacity is increasing.

Government policies encouraging export industries in New Zealand should foster growth of markets for U.S. suppliers of plant and machinery and production materials. The industries include forest products; food processing; natural gas processing, distribution and utilization, coal mining, petroleum exploration; and heavy transport. Among those materials with sales potential are industrial chemicals, synthetic rubber, pharmaceuticals, metals and plastic materials.

U.S. firms can expect New Zealand's leading trading partners to step up the competition for these markets. While American made products are highly regarded, aggressive marketing is called for if the United States is to retain or improve its position.

PAKISTAN

Emphasis Is On Infrastructure As Economy Shows Upturn

Pakistan continues to be a good market for U.S. goods and services, observes Monroe Aderhold of the Bureau of International Commerce. U.S. exports are estimated to have totaled some $400 million in 1976 and perhaps will reach $450 million in 1977. The anticipated increase will depend on Pakistan's ability to implement numerous large-scale industrial and infrastructure projects under consideration by the World Bank Group, Asian Development Bank, and countries which are providing development assistance.

Overall, Pakistan's economy performed better this year than previously. Real GNP growth is estimated at 5 percent, with an increase of about 2 percent in real per capita income. An 8 percent

growth rate in 1977 is possible but will depend primarily on Pakistan's efforts to reach its stated goal of self-sufficiency in food production.

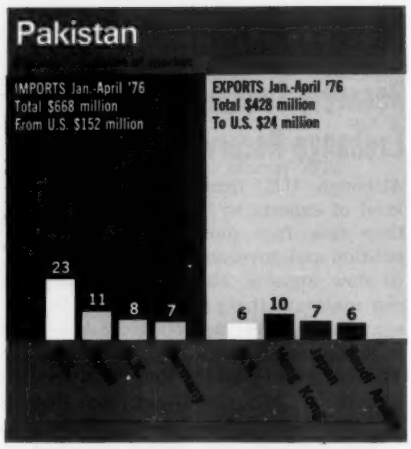
The trade deficit for 1976 is estimated at $975 million. However, increased remittances and disbursements by aid donors of nearly $1.1 billion will result in a balance of payments surplus of roughly $96 million.

Foreign aid will finance most investments planned in Pakistan over the next few years. OPEC countries have contributed nearly one-third of Pakistan's external assistance during the past two years.

Pakistan's total merchandise imports during 1977 are likely to reach $2.4 billion, with exports in the $1.3 billion range. The United States is the leading supplier — its market share has averaged about 20 percent during the past five years. Trade deficits are expected to continue for the next several years and remain a serious medium-term economic problem. Debt servicing is high with payments of interest and principal representing about 28 percent of Pakistan's foreign exchange earnings. An increasing share of the country's exports is going to oil-exporting nations.

Pakistan's emphasis is currently on development of its infrastructure. A major undertaking is the Port Qasim project on the outskirts of Karachi to cope with growing demand for sea-borne transport. Financing for this project is being considered by the Asian Development Bank. The cost estimate for the initial phase is $220 million with $118 million allocated for foreign exchange expenditures. The World Bank Group has authorized loans for expansion of the gas pipeline system of Sui Northern Gas, a fertilizer plant, two development banks, livestock development, improved seed production, electric power and major improvements in the Lahore water supply and drainage systems. Other projects under consideration include an oil refinery, several textile plants, at least two livestock projects, a cement plant, and a polyester fiber plant, which will be financed by OPEC aid.

Pakistan's emphasis on development of these projects affords American businessmen many trade opportunities. Overall, the best export opportunities await U.S. manufacturers of chemical fertilizer machinery; railway, telecommunication, port, hotel, transportation and food processing equipment; and items for natural gas distribution systems. Engineering and consulting services will be needed in connection with many large scale projects. An important factor in procurement decisions is the availability of credit facilities for imports which are not financed by the Pakistan consortium or OPEC countries.



Very little foreign investment has come into Pakistan during recent years. Skepticism is prevalent among foreign businessmen due to the recent nationalization of Pakistan's cotton ginning, rice and flour milling businesses. To what extent this feeling will subside in the near future depends primarily upon implementation of the government's policies in a mixed economy.

PHILIPPINES

Adverse Payments Balance Limits U.S. Export Prospects

Philippine domestic economic activity during 1976 showed moderate growth, and the outlook for 1977 is that GNP will increase at a real rate of 5 to 6 percent. Inflation was kept to a manageable rate of about 7 percent. The Philippines continues to experience an adverse balance of payments, and prospects for an improvement in 1977 do not appear to be favorable. This means that the country will allow the import of only those products deemed essential, Andre Williams of the Bureau of International Commerce points out.

The full effect of economic recovery in the United States and Japan, major trading partners with the Philippines, has yet to be felt in that country. Agricultural products remain the principal earners of foreign currencies, but a severe crisis in the sugar industry augurs poorly for 1977 earnings. All indications are that a third annual large trade deficit will follow.

The country remains under martial law, but this situation has not hindered business and the business community is confident. Everyday life in the capital and on Luzon, the main island, does not seem to have been affected.

Employment, which had been increasing due to a hotel-building boom in Manila, will probably subside and decrease when construction slows down, but new jobs are being created in such sectors as utilities, manufacturing, commerce, transport and services.

The Central Bank is the sole decision-maker in allowing transfers of hard currencies for payments of overseas obligations. It keeps track of such transactions by the issuance of letters of credit.

For that reason, U.S. businessmen are cautioned to deal with importers in the Philippines by letter of credit only, or to face long and perhaps hopeless complications before payment is received. Philippine Customs authorities are meticulous in examining documents, and exporters must be scrupulous in following all instructions.

Government fiscal policy is gradually assuming a more expansionary character. Since fiscal year 1974 the ratio of budgetary deficit to GNP has been rising steadily. The 1977 budget aims at a revenue-to-GNP ratio of 16 percent, and an expenditure-to-GNP ratio of some 19 percent.

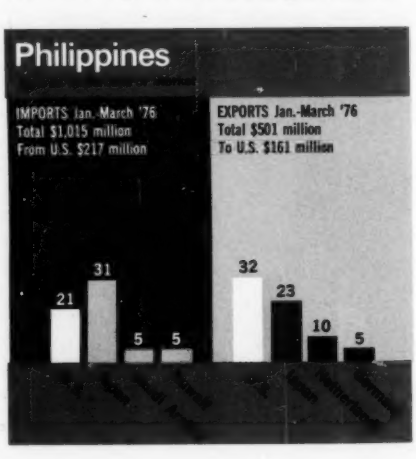
The government is considering plans to embark on construction projects devoted to infrastructure, government buildings, and housing developments. Housing is one of the top priorities of the Marcos administration; corporations and employers are urged to extend housing and real estate loans to workers, and, in some cases, are required to do so.

Reports of offshore oil discoveries (of uncertain quality) sparked interest in the stock market and further exploration.

A $1 billion nuclear plant is shortly to be started.

The Philippines extends a selective welcome to foreign investment, frequently on a 40 percent minority basis. Investment is not allowed in "overcrowded" areas where existing capacity is deemed sufficient.

The Laurel-Langley accords expired in 1974, and a new set of Philippine-U.S. commercial guidelines is being discussed.



SINGAPORE

Market Potential Increases As Trading Partners Improve

For the United States, 1976 proved to be another outstanding trading year with Singapore, as exports to the Republic exceeded $1 billion. Prospects remain excellent in 1977 for the sale of U.S. equipment and services, according to J. Lee Barnes of the Bureau of International Commerce.

The United States supplied about 14 percent of Singapore's imports in 1976. Major factors accounting for the favorable U.S. market position include Singapore's continued economic growth and strong balance of payments position, price competitiveness enjoyed by U.S. suppliers and the country's demand for capital goods.

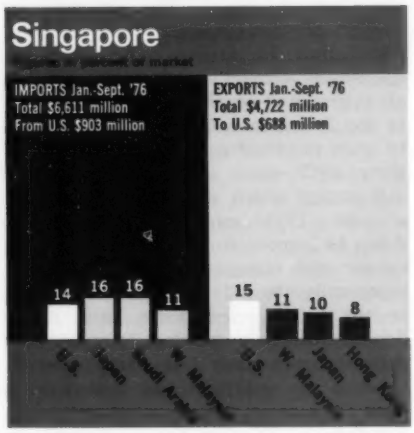
Real GNP growth for 1976 is estimated at 7-10 percent, with the outlook for 1977 even better as the economies of the industrialized nations continue to improve. Neither inflation nor unemployment should be major problems for the Republic, assuming continued economic health in the country's export markets.

Singapore's external trade for the period January-September totaled $11,333 million, a more than respectable figure. The population of 2.2 million enjoys the second highest standard of living in Asia. In an effort to further stimulate the trade sector the government and several local banks recently formed an Export Credit Insurance Corporation, and the Monetary Authority of Singapore has established a rediscount facility extending concessionary loans to banks and discount houses for certain export bills.

Singapore's industrial base should continue to grow, although the rate is likely to be substantially slower than in the last decade as the Republic joins the ranks of the industrialized nations and spectacular gains become more difficult. Prospects for two of the country's largest manufacturing industries, petroleum refining and shipbuilding/repair, look bad, however, resulting from the increases in oil prices and the regional slowdown in oil exploration.

Singapore's Economic Development Board emphasizes capital intensive industrialization. As a result, the market for U.S. capital goods is expanding rapidly. Best prospects for U.S. goods exist in building and construction supplies and equipment; metalworking machinery; energy and fluid transfer systems; communications equipment and systems; process control and laboratory instrumentation; food processing and packaging equipment; and materials handling equipment. The market is competitive and very conscious of price, delivery time and after-sale service.

The U.S. Regional Trade Center in Singapore promotes the sale of U.S. goods and services through a variety of techniques including product displays. Exhibitions featuring energy systems; printing and graphic arts equipment; electronics industry production and test equipment; recreation equipment; and advanced building technology are planned to take advantage of this lucrative market. Between regularly scheduled promotions U.S. firms are invited to utilize the new, enlarged Trade Center facilities, for exhibiting products and holding sales meetings.



THAILAND

Five-Year Plan Approved; U.S. Sales To Increase

Thai officials are moving to improve the market picture in their country. The new civilian government, headed by former Supreme Court Justice Tanin Kraivixien, is working to get the national economy on a stronger upward trend. The outlook for U.S. suppliers and investors appears to be improving, reports Todd W. Burns of the Bureau of International Commerce.

Improving economic pictures in the United States, Japan, and Western Europe have led to increased demand for Thai products. Exports increased at a much greater rate than imports last year and helped to reduce the two-year trade deficit. Exports were led by record sales of rice, along with sugar, rubber and tapioca, and markets for these major foreign exchange earners look good for this year also.

The GNP growth rate in 1976 was 6.2 percent in real terms and is projected to reach 6.8 percent for the current year. Foreign exchange reserves showed a slight improvement over 1975. The balance of payments deficit was also reduced, helped by the improved terms of trade.

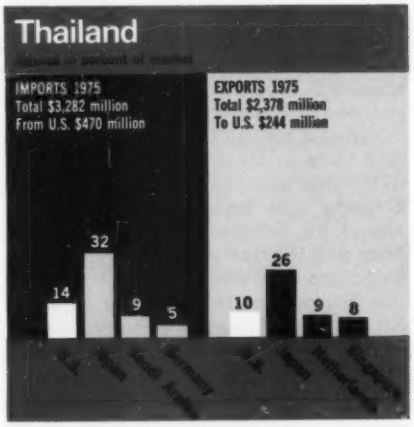
A major factor in the economic future of Thailand is the discovery of commercial quantities of gas in the Gulf of Thailand. These discoveries could go a long way towards reducing Thailand's dependence on foreign energy sources. A partial reduction of the yearly $600 million bill for oil would free foreign exchange for purchases of much needed capital equipment.

World Bank borrowing totaled $228 million in 1976. Thailand also entered the Eurodollar market for the first time, borrowing $100 million. These funds are to support the National Economic and Social Development Plan and the Economic Development Project of the Telephone Organization of Thailand (TOT), and provide for a 50 percent increase in generating capacity by the Electric Generating Authority of Thailand (EGAT).

The government is giving increased support to the Bank of Agriculture and Agriculture Cooperatives, and rural electrification and irrigation. Sales prospects look good for exporters of agricultural and food processing equipment. Continuing efforts to find and process minerals will create increasing demand for mining equipment. Equipment to support the growth of TOT and EGAT is also needed.

There is also a growing market for consumer goods, as well as printing and graphic arts materials, building equipment and supplies, hotel and restaurant equipment, scientific instruments, timber and furniture processing equipment, and hospital and medical equipment.

In an effort to develop these markets, Commerce will sponsor a catalog show on building and construction equipment this month, a catalog show on hotel, motel and restaurant equipment in October, and a timber processing equipment trade mission in November.



CREDIT BECOMES MORE IMPORTANT IN SUB-SAHARA AFRICA MARKET

Some Newer U.S. Lines Replace Traditional Items

U.S. export performance in Africa was lackluster in 1976. The latest statistical signals point toward an actual dropoff in volume from 1975 levels, according to Sally K. Miller of the Bureau of International Commerce. In only 13 of 44 Sub-Sahara markets were U.S. sales headed for increases; in seven of these the increases were in the modest minus-$2 million range.

Had not U.S. aircraft manufacturers succeeded in a number of their African sales ventures this past year, the U.S. export picture would have had no positive aspect in 1976. Aircraft sales soared by 100 percent over the 1975 level and reached nearly a half billion dollars. Prospects for 1977 are moderate, and depend on several of the more affluent African markets.

Sales of some of the more traditional U.S. exports to Africa fell last year. The most noticeable declines were in construction and mining equipment, as mines put off extensive purchases of new equipment; agricultural tractors; and motor vehicles. Some newer product lines gave stronger performances and offer good prospects for increasing sales in 1977. These include telecommunications equipment, electron tubes, pumps, fishing vessels, railway locomotives and rolling stock and control installations, truck trailers, coated paper and paperboard, coal and domestic appliances.

One the whole, the outlook for 1977 calls for a continuation of the current unexciting export performance. Exports to Sub-Saharan Africa in 1977 will probably not exceed $3.2 billion. As even sizable African markets face increasing currency strictures, the importance of competitive financing packages, including rates, grace periods, and willingness to carry letters of credit for periods in excess of 180 days, is gaining in magnitude. Sales are actively going elsewhere because U.S. firms either cannot or will not provide this competitive assist.

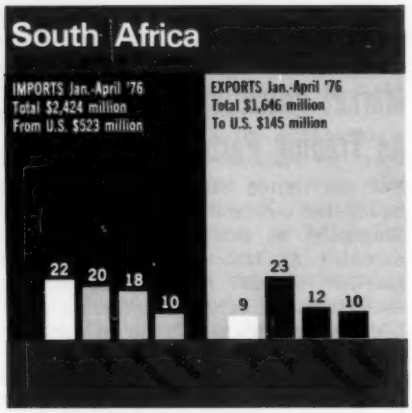
Valuable help to U.S. exporters in 1977 may come in the form of two extensive AID programs, being requested from Congress. One deals with the rehabilitation of the Sahelian states in the immediate Sub-Saharan area. The second, less well defined at this stage, will focus on the development needs of the Southern African region from Zaire southwards.

U.S. export performance in individual countries may deviate widely from this projection. The stellar growth market will remain Nigeria. South Africa will continue as the region's largest export market for U.S. firms, principally on the basis of its more broadly-based and industrially-oriented economy. Prospects are brighter also for a number of the other markets highlighted individually in the following pages.

The commodity outlook for Africa on the whole is upbeat. The economic recovery of the industrialized nations, which may be accelerating again, the continued though moderated rise in oil prices, and severe natural restriction of the Brazilian coffee crop have tended to push most commodity prices up from their 1975 lows. The key exceptions are sugar, which is going for a third of its 1975 average price; sisal, down 14 percent from its 1975 level; and copper and manganese, which are only marginally above 1975 prices. In addition to the coffee price surge, palm oil is demonstrating surprising strength as manufacturers seek less costly alternatives to soy and corn oils. Cotton is up over 60 percent from the price it commanded in 1975. Tea listed wholesale in New York in October for 20 percent above the previous year's price. The efficiency with which African producers of coffee, cococa, tea, cotton and palm oil get their produce to the market during the current crop year to capitalize upon the boom market prices will to a large extent determine the volume of both private and government purchases which the African economies can make during the next 12 months.

Trade promotion events

Markets which countered overall 1976 trends and purchased increasing amounts of U.S. exports bear watching by U.S. manufacturers: Cameroon, Mauritania, Senegal, Malawi, Togo and Botswana. Several trade promotion events over the next six months will focus U.S. firms' attention on these markets. These include a tropical food processing and packaging trade mission to Cameroon, Ivory Coast and Kenya in March; a commercial fishing trade mission to Liberia, Ghana and Nigeria in June; an integrated agribusiness technical sales seminar to Gabon, Nigeria and Sudan in March; an energy systems technical sales seminar to Ivory Coast, Zaire and Botswana in July; and a motor vehicles maintenance equipment catalog show in Nigeria, Zaire and Zambia in March.



SOUTH AFRICA

Recovery Elsewhere Is Key To U.S. Sales Success In '77

South Africa's imports from the United States should rise by more than 6 percent during 1977 if the economic recoveries of South Africa's major trading partners, the western industrialized nations, are maintained, according to Philip Christenson of the Bureau of International Commerce.

Despite a larger manufacturing complex, South Africa remains heavily dependent upon exports of mineral and agricultural products to the industrial nations for its international liquidity. Gold is the traditional foreign exchange earner, with annual exports of about 21.4 million ounces. In 1975, gold accounted for about 43 percent of South Africa's exports. The continuing fall since 1974 of the price of gold has had serious repercussions on the South African economy and contributed to the need for a devaluation of the rand and the imposition of temporary import restrictions. Declining prices and volumes of exported minerals due to recession among its trading partners has also contributed to South African economic difficulties.

During 1976 a number of major developments lessened the impact of gold fluctuation on the South African economy: the opening of two bulk shipment ports, Richards Bay and Saldanha Bay, which allow South Africa to export massive shipments of iron ore and coal; the recovery of the industrialized nations, which has increased the demand for raw materials, thus improving both the price and volume of raw material exports; and the continued strong world demand for food products.

The improvement in the South African economy during 1977 will probably be concentrated in early months in three

sectors: mining, agriculture and chemicals. Mining production in 1976 grew strongly in all sectors except diamonds. Rising world prices and an increase in the volume shipped should create opportunities for sales of mining equipment and downstream processing equipment. Agriculture, which accounts for 33 percent of South Africa's non-gold exports, is a field of increasing importance and rapid growth. Since 1970 agricultural exports have increased by 22 percent a year, and such increases can be expected to continue for several years. Although the major export crop is corn, several schemes for the export of fruits and vegetables to northern hemisphere markets have proved successful.

The chemical industry in South Africa has plans for $4.6 billion of investment in the next few years. The industry is well supplied with local raw materials, with the exception of petroleum, and is benefiting from increasing import substitution due to the rand devaluation as well as an increasing ability to compete on world markets. Despite a slowdown in investment in other areas of the economy, the chemical industry is proceeding with its investment plans.

High interest rates prevailed in 1976 and will continue well into 1977. Economic sectors dependent upon the availability of low-cost credit—construction, consumer durables and motor vehicles—suffered badly in 1976 and will continue in difficulty until at least mid-1977. The motor vehicle industry in particular will witness the withdrawal of a number of foreign companies assembling vehicles and a reduction in the number of models offered by remaining assemblers.

Consumer spending on non-essentials has been considerably reduced, as South African workers face an uncertain future in view of a high level of domestic inflation and the specter of layoffs. Overall spending in the first six months of 1976 on consumer durables indicates an increase in real terms of 8 percent, but much of this was due to one-time-only purchases of television sets in preparation for the introduction of television into South Africa. Excluding television sets, there was a decline of 10 percent. There was a slight decline in the volume of non-durable goods and services during the same period.

The wholesale and retail trades in non-essentials will see continuation of high inventories and slow turnover until a restoration of economic expansion and employment security releases pent-up consumer demand. This restoration should occur by mid-1977 if the western industrial nations' recovery continues, and will translate into demand in late 1977 for the imported components and equipment which figure importantly in South African manufacturing.

NIGERIA

Government Is Moving Ahead On Several Huge Projects

U.S. exports to Nigeria may reach $1.2 billion in 1977, according to Reginald F. Biddle of the Bureau of International Commerce. Nigeria's total import bill should rise to $8.7 billion in 1977. Rapid growth is foreseen for machinery and transport equipment, manufactured goods, chemicals and food, which comprise 90 percent of Nigeria's imports.

Oil revenues fuel the country's expanding economy and are the financial backbone of its ambitious $50 billion 1975-80 Third National Development Plan. Nigeria is expected to be spending $11 billion per year on imports by 1979-80. Nigeria's GDP could reach $27 billion in 1976, and $29 billion in 1977.

The government is moving ahead on several huge projects to utilize hydrocarbon resources. Preliminary agreements have been reached for two proposed liquefied natural gas plants, while candidates have been listed for partnerships with the government in proposed petrochemical and fertilizer projects. Tenders for construction and equipment for these projects and the associated gas grid are about one year off. Contracts have been awarded to American, Italian and Soviet firms for construction of 1,700 miles of petroleum products' pipelines, and contract awards are expected shortly for the third domestic refinery at Kaduna.

The April 1 import ban was eased by an Oct. 1 amendment. Among the items again free for import are textiles, furniture, carpets, blankets, tableware and glassware and dried fruits. The Federal Military Government will import 3 million metric tons of cement during the 12 months which began November 1976, indicating that the ban on the importation of this commodity has been lifted. However, with large fertilizer shipments expected and sizable development projects in the offing, port congestion, although greatly reduced, cannot be eliminated during 1977, and it is expected that authorities will continue to require advance approval for all Nigerian port calls.

The Central Bank announced that, effective Oct. 6, the port cargo clearance certificate is no longer a required document supporting applications for foreign exchange for payments for imports. The government also announced, effective Dec. 16, that all merchant banks operating in Nigeria have regained their status as authorized dealers in foreign exchange.

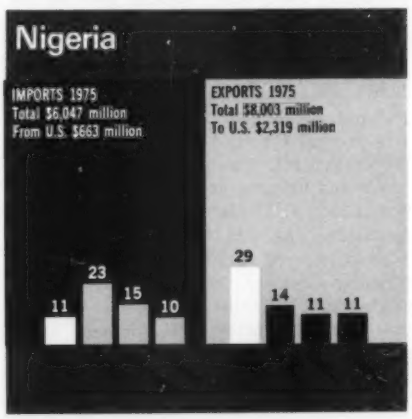
With increasing frequency, initial decisions are being made on several long-awaited development projects in communications, transportation, education, heavy industry and urban development, while preliminary work on the new federal capital project is proceeding rapidly. The Third National Development Plan is being revised to eliminate "prestige" projects and emphasize development of agriculture, education, social services, transport, communications, housing and manufacturing. Local food production lags behind demand; heavy purchases of American wheat, rice and poultry should continue this year.

U.S. exporters will find that Nigerians have a keen appreciation for American products and services. Nigeria Airways recently bought a $38 million wide-bodied American aircraft and plans to acquire another $91 million worth of U.S. commercial aircraft in the next year.

In 1976, key sales of vehicles, aircraft, telecommunications systems and locomotives sparked breakthroughs for American firms, and at long last American construction firms are obtaining noteworthy road and building construction jobs. This achievement bodes well for interested firms that wish to utilize the improved image of U.S. construction prowess.

In 1977, the Commerce Department will sponsor in Nigeria trade missions on commercial fishing and vehicle maintenance, technical sales seminars on integrated agribusiness and water resources, and catalog shows on vehicle maintenance and building supplies and equipment.

Best prospects for sales in 1977, in addition to the above, include communications equipment and systems; food processing and packaging equipment; graphic arts and printing equipment; energy systems; health care and environmental equipment; material handling machinery and equipment; business equipment and systems; oil field and process plant equipment; metalworking equipment; and educational and training equipment.



GABON

Dynamic Development Plan Will Attract U.S. Products

Fueled by the Gabon's expanding petroleum-based economy and the needs of an ambitious development program, U.S. exports should increase substantially during 1976, according to Philip Michelini of the Bureau of International Commerce. The recently released $5 billion Third Five-Year Development Plan (1976-80) details many trade opportunities which should push U.S. sales of goods and services to over $100 million by 1978.

The U.S. competitive position became stronger during 1976 as the business-oriented government of President Omar Bongo sought to diversify sources of supply and investment and end the trade preferences granted to France and members of the European Economic Community. Goods from all developed countries, including the United States, now pay the same import duties.

During 1976 the Government of Gabon declared its intention to practice a greater degree of budgetary "austerity" and seek more "balanced" development. Some development projects will be deferred, but projects of particular interest to American companies in the transport and power sectors are not expected to be subject to any delays. There has been some concern over the size of Gabon's external debt but President Bongo has characterized as "totally false" a Reuters report in December to the effect that the government would delay repayment until 1979.

In line with its national development program, Gabon is proceeding with several infrastructure projects. Foremost among these is construction and equipping of the $1 billion Trans-Gabon Railroad, scheduled for completion around 1981. In November the American construction firm, Charles T. Main International, was given the contract for the feasibility study and financial plan for the massive Grand Poubara Dam. Other construction, equipment, or services sales opportunities include the $100 million Santa Clara minerals port project, expansion of the harbor and airport facilities at Port-Gentil, the Tchimbele hydropower project, construction of numerous roads and bridges, and numerous housing, hotel, industrial plant and office building facilities. The Third Plan foresees the expenditure of $180 million on implementing various agribusiness projects during 1976-80. Other areas of plan interest include industrial development ($520 million), tourism ($104 million), communications ($64 million), education ($165 million) and health ($145 million).

Best sales prospects include mining and construction equipment; building supplies; transport vehicles, especially trucks, locomotives and aircraft; timber and woodworking equipment; agricultural equipment and supplies; power generating systems; materials handling machinery; health care equipment and supplies.

The Department of Commerce will sponsor during 1977 in Libreville an integrated agribusiness technical sales seminar in March, a forestry and woodworking trade mission in October, and a vehicle maintenance trade mission in December.

Gabon

Comparable data are not available for recent competitive market share comparisons; some major trading nations report the following totals on their exports to Gabon:

U.S., Jan.-Nov. 1976, $32 million
France, Jan.-July 1976, $238 million
Germany, Jan.-Sept. 1976, $20 million
Japan, Jan.-Sept. 1976, $12 million
Italy, Jan.-Aug. 1976, $9 million
U.K., Jan.-Oct. 1976, $6 million

U.S. imports from Gabon, Jan.-Nov. 1976, were $168 million.

IVORY COAST

Favorable Export Markets Keep Economy On Upswing

As a result of increasingly favorable markets for its main exports, the Ivorian economy registered healthy growth during 1976. Preliminary indications are that the country may register a slight balance of payments surplus for 1976. Following a moderate dip in U.S. sales this past year, American exports in 1977 should reach the 1975 level of $81 million, according to Philip Michelini of the Bureau of International Commerce.

Ivory Coast has consistently registered a healthy trade surplus in recent years. Despite declining revenues engendered by then falling prices and lower volumes for coffee, cocoa and timber, in 1975 export income exceeded import outflows by $62 million. A sizable trade surplus was foreseen for 1976 and into 1977 as well.

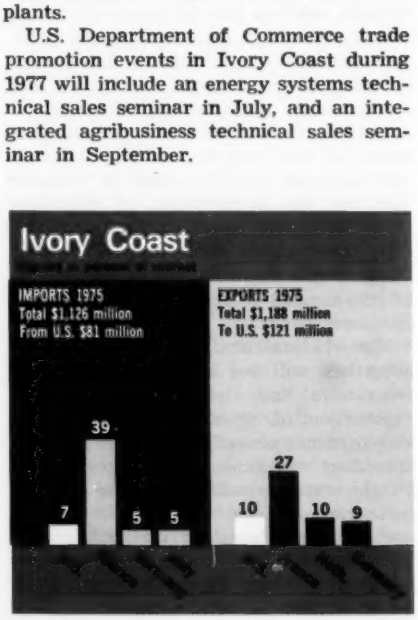
The main competition to U.S. suppliers interested in the Ivorian market will continue to come from Western Europe. France has remained the country's most important trading partner. The members of the European Economic Community, with France in the lead, supply about two-thirds of Ivory Coast's imports and buy around two-thirds of its exports.

Trade with the United States has been growing in recent years. Principal U.S. exports are aircraft, construction machinery, kraft paper, air-conditioning and refrigeration equipment, tractors and materials handling machinery. During 1975-76 the U.S. trade base broadened from a dependence upon major projects, such as public works and government sector industry, to include a greater range of industrial and consumer goods. The principal obstacles to increased U.S. sales are now the lack of independent agents and distributors (most are owned or tied to European suppliers), the necessity of doing business in French, and the need to overcome traditional trading patterns.

Buyers in Ivory Coast respect the technical superiority and price competitiveness of American products but must be reassured as to delivery dates and availability of servicing and spare parts. Major trade opportunities for U.S. exporters over the next few years are expected to be in telecommunications equipment, energy systems, industrial refrigeration, food processing, agribusiness enterprises, earthmoving equipment, business systems, building supplies and equipment, and textile machinery.

Many trade and investment opportunities for U.S. suppliers and investors are anticipated under the ambitious $2.9 billion 1976-80 Five-Year Development Plan (soon to be published). The plan reserves an important place for foreign and domestic private investment. Important construction projects will include ports, highways, airports, mines, tourist facilities, agricultural and forestry projects, urban development, and industrial plants.

U.S. Department of Commerce trade promotion events in Ivory Coast during 1977 will include an energy systems technical sales seminar in July, and an integrated agribusiness technical sales seminar in September.



KENYA

Soaring Prices For Coffee Improve Business Prospects

In 1977, U.S. exports to Kenya are expected by Mary Manley of the Bureau of International Commerce to increase by 5 percent. This would be a lively performance after the 14 percent decline last year, which was heavily weighted by a 66 percent drop in commercial aircraft sales, from $11.2 million in 1975 to about $4 million in 1976.

Major U.S. exports in 1976 included telecommunications equipment, fertilizer, pesticides, insecticides, cereals, measuring and controlling instruments, photographic supplies, road tractors, agro-industrial machinery and equipment, and office machines.

Following a 5.2 percent decline in 1975, Kenya's 1976 total import bill rebounded to around the 1974 level. Soaring prices for coffee, the leading export, and an increase in world trade due to the recovery from recession of industrial countries, should improve Kenya's terms of trade in 1977. A reduction in the level of the current deficit in the balance of payments is expected to mitigate the dampening effect the large deficits of 1974 and 1975 have had on the economy. GDP at constant prices, which is estimated at $1.8 billion, is expected to grow 5-5.5 percent in 1977.

U.S. exports of paper and paper products will continue to trend downward as a result of the doubling of output of Kenya's pulp and paper mill at Webuye. While the 40 percent increase in Kenyan output of rubber and rubber products, sugar and meat products, beverages and tobacco products, textiles, footwear, and chemicals will inhibit some U.S. sales, new markets have been created for related machinery and equipment.

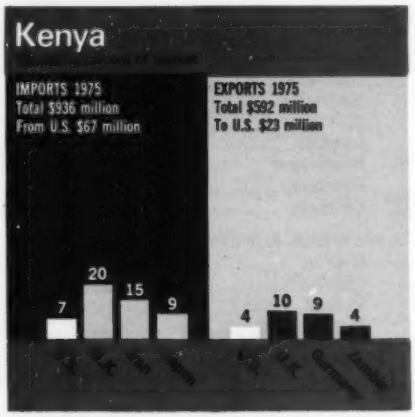
In 1977, the following proposed projects could generate substantial sales for U.S. suppliers: the $2.8 million expansion of a soap and edible oil factory in Nairobi; the establishment of a $5.6 million hotel at Mombasa; and construction of three housing schemes at Kisumu at a total cost of $1.9 million.

The Nairobi cost-of-living indexes for the middle and lower income groups both rose an estimated 10 percent in 1976. This rise was moderate in light of the October 1975 devaluation of the Kenyan shilling, the consequent increase in import prices, and the recent rise in the controlled prices of some agricultural products.

A recent revision in the Kenyan Government's development strategy is expected to have far-reaching effects on the economic development pattern in the 1980s. The revised Development Plan (1973-78) has shifted capital expenditure priorities toward agriculture and rural development, early and quickly productive projects utilizing local resources, and projects having a high employment potential.

The Kenyan Government has identified the production of basic industrial chemicals and metal products, sugar cane processing, and paper conversion and printing as major opportunities for investment.

To capitalize on increasing business opportunities, the U.S. Department of Commerce has sponsored a number of successful events in Kenya. Planned events in 1977 include the following: technical sales seminar for integrated agribusiness (September); and a hotel and restaurant equipment catalog exhibit (November).



SUDAN

Development Plan Integrated With Massive Arab Aid Program

U.S. exports to the Sudan are expected to rise some 23 percent in 1977, according to Mary Manley of the Bureau of International Commerce. Last year the United States, with 9 percent of the market, moved up to second place among the Sudan's non-petroleum suppliers.

As the Sudan nears self-sufficiency in wheat, U.S. wheat exports have plummeted, but exports other than wheat are taking up the slack. Major categories of U.S. exports have been increasing both in value and volume as suppliers cater to the Sudan's expanding development needs for a multiplicity of goods and services. Exports for road, rail, port and airport construction, sugar and peanut processing, grain handling and storage and textile projects should expand substantially in 1977.

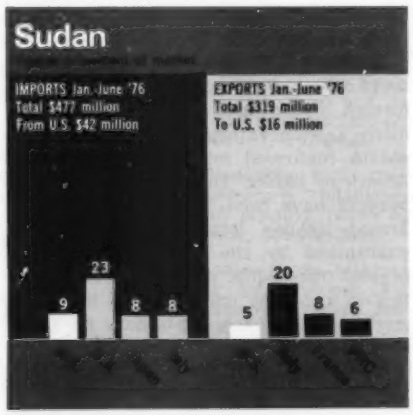
The magnitude of the $5.7 billion program intended for the Sudan by the Arab Agricultural Authority for Investment and Development, an Arab League agency, has important implications for U.S. traders and investors. With part of the financing virtually assured, the program, which will run to the year 2000, will provide outstanding business opportunities. In the first phase (1976-85), $3.9 billion is to be allocated for productive projects and $1.8 for infrastructure. Projects that will enable the Sudan to meet most of its Arab benefactors' needs for agricultural commodities and food products in 1986-2000 (the second phase) will be emphasized. Publication of the Sudan Government's Six-Year Plan (1977-83), which will be integrated with the above program, is expected shortly.

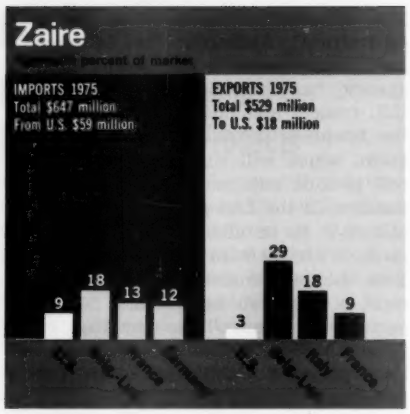
The market for U.S. goods and services is becoming much more broadly based. In addition to excellent opportunities for exports of heavy construction equipment and agro-industrial machinery, sales potential has increased for road tractors, trucks and chemicals.

In 1977, the many services required for the developing Sudanese economy will continue to expand the market for aircraft, river boats and ancillary transportation goods. Export opportunities also are especially promising for food processing and packaging and edible-oil processing machinery and equipment.

Civil aviation will play a prominent role in meeting domestic transportation needs. Current plans call for new airports at Port Sudan and Wau; a new terminal at Juba; and extensive improvements at Malakal. Communications, navigation and maintenance equipment is to be purchased for all four airports. The Suakin port development project offers major sales opportunities for cargo handling and lifting and loading equipment.

Commerce trade promotion events scheduled for 1977 include a building equipment and supplies catalog exhibit (February), and an integrated agri-business technical sales seminar (March).





ZAIRE

Continuing Economic Problems Will Hold U.S. Exports Down

U.S. exports to Zaire declined significantly in 1976 from their record 1975 level, according to Philip Michelini of the Bureau of International Commerce.

The decline in U.S.-Zairian trade stems from the recession which has plagued the Zairian economy since the last quarter of 1974. Although the world market price for copper, which ordinarily supplies the country with over 60 percent of its foreign exchange, did rise slightly during 1976, with further increases predicted for 1977, falling production, transport bottlenecks, a shortage of essential supplies and restricted revenue inflows are likely to prevent any economic recovery before the end of 1977.

To help turn the economy around, the Government of President Mobutu Sese Seko has announced a program of strong import and exchange controls. Since May all importers must deposit with the Central Bank of Zaire 80 percent of the cost of the imported item before an import license is granted or a letter of credit opened. Exceptions are a 50 percent deposit in the case of food and pharmaceutical products and no deposit for raw materials and industrial machinery spare parts.

Furthermore, with the exception of supplies to major projects financed by foreign institutions, it is not likely that many Zairian enterprises will be able to obtain confirmed letters of credit from American banks. During the past year imports have been purchased by unconfirmed 180-day letters of credit, some guaranteed by the Bank of Zaire. At present the Bank is about 6-7 months behind in paying unguaranteed letters of credit, but is fairly up-to-date on those it guarantees.

Customers and agents all report that the import market, even in areas in which American companies have traditionally been strong, is being taken over by European suppliers who are willing to take the risk involved in waiting for payment, or who can still obtain guarantees from their government export banks.

U.S. suppliers seeking trading opportunities in Zaire will find the agricultural, forestry and transportation sectors providing the best short-term marketing opportunities, since the government has declared that those areas will have priority for whatever foreign exchange becomes available. During the current fiscal year the United States has earmarked $34.2 million for tied grants and loans and Food for Peace shipments.

Ongoing investment projects, such as the Inga-Shaba power project, for which the U.S. Export-Import Bank in May approved $68 million in loans and guarantees, and the $500 million Gecamines copper expansion project, which has its financing already secured and which recently received a $20 million credit from the U.S. Eximbank, will offer some remaining opportunities for U.S. exporters.

The Department of Commerce plans to send an energy systems technical sales seminar to Zaire in July.

U.S. Share of Imports Into Selected Countries

Area and country	1975 Imports From world (Million dollars)	1975 Imports From U.S. (Million dollars)	1975 Imports U.S. share %	1976 Imports January through latest month: Latest month	1976 Imports From world (Million dollars)	1976 Imports From U.S. (Million dollars)	1976 Imports U.S. share %
WESTERN HEMISPHERE							
Barbados	216	42	19.3	June	113	(1)	(1)
Bermuda	162	69	42.6	(1)	(1)	(1)	(1)
Guadeloupe	307	14	4.6	June	171	(1)	(1)
Guyana	342	102	29.7	Feb.	58	17	30.2
Martinique	327	14	4.3	June	222	(1)	(1)
Paraguay	213	25	11.7	Sept.	159	18	11.1
Uruguay	516	54	10.4	June	236	21	9.0
WESTERN EUROPE							
Cyprus	309	10	3.3	Sept.	264	13	4.9
Iceland	489	45	9.3	Sept.	326	28	8.5
Ireland	3,769	272	7.2	Oct.	3,434	283	8.2
Malta	378	30	8.0	Mar.	102	9	9.3
NEAR EAST							
Bahrain	1,189	92	7.7	Feb.	200	18	9.2
Jordan	733	77	10.4	Apr.	262	38	14.4
Oman	676	65	9.6	(1)	(1)	(1)	(1)
Syria	1,685	[2]117	[2]6.9	Mar.	525	(1)	(1)
FAR EAST-SOUTH ASIA							
New Caledonia	359	16	4.3	June	115	(1)	(1)
Papua New Guinea	588	52	8.9	June	246	(1)	(1)
Sabah	424	[2]31	[2]7.3	June	206	(1)	(1)
Sri Lanka	745	48	6.4	June	256	9	3.3
West Malaysia	3,118	333	10.7	Aug.	2,189	290	13.3
SUB-SAHARA AFRICA							
Burundi	62	3	5.0	June	25	(1)	(1)
Cameroon	598	39	6.6	June	281	21	7.4
Central African Republic	68	2	3.5	(1)	(1)	(1)	(1)
Ethiopia	311	23	7.3	Mar.	80	6	7.3
Gambia	59	2	3.2	May	32	2	5.0
Liberia	331	104	31.5	June	187	(1)	(1)
Malawi	250	9	3.5	Mar.	52	2	3.4
Mauritius	332	17	5.1	Mar.	83	2	2.8
Mozambique	385	[2]26	[2]6.6	(1)	(1)	(1)	(1)
Reunion	410	5	1.2	June	223	(1)	(1)
Senegal	581	42	7.3	(1)	(1)	(1)	(1)
Sierra Leone	186	[2]14	[2]7.3	Mar.	35	(1)	(1)
Tanzania	771	96	12.4	Mar.	155	(1)	(1)
Uganda	199	4	2.1	Mar.	36	(1)	(1)
Zambia	1,083	134	12.3	(1)	(1)	(1)	(1)

NOTE: The selected countries are those whose total imports were valued at $50 million or more in 1975 and are not covered in the country articles in this issue. Other countries meeting this criterion were omitted for lack of data. In order to present comparable statistics for all countries, import data have been adjusted from an f.o.b. to a c.i.f. valuation for Papua New Guinea and Zambia and for Paraguayan imports from the United States.

[1] Not available.
[2] Estimated from partial year data.

SOURCES: Official trade statistics of listed countries.
International Monetary Fund, *International Financial Statistics*.

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Dallas, 75242, Room 7A5, 1100 Commerce St. (214) 749-1515.

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Des Moines, Iowa, 50309, 609 Federal Bldg., 210 Walnut St. (515) 284-4222.

Detroit, 48226, 445 Federal Bldg., 231 W. Lafayette (313) 226-3650.

Greensboro, N.C. 27402, 203 Federal Bldg., W. Market St., P.O. Box 1950. (919) 378-5345.

Hartford, Conn., 06103, Room 610-B, Federal Office Bldg., 450 Main St. (203) 244-3530.

Honolulu, 96813, 286 Alexander Young Bldg., 1015 Bishop St. (808) 546-8694.

Houston, 77002, 2625 Federal Bldg., 515 Rusk Ave. (713) 226-4231.

Indianapolis, 46204, 357 U.S. Courthouse & Federal Office Bldg., 46 E. Ohio St. (317) 269-6214.

Los Angeles, 90049, Room 800, 11777 San Vicente Blvd. (213)824-7591

Memphis, 38103, Room 710, 147 Jefferson Ave. (901) 521-3213.

Miami, 33130, Rm. 821, City National Bank Bldg., 25 W. Flagler St. (305) 350-5267.

Milwaukee, 53202, 605 Federal Office Bldg., 517 E. Wisconsin Ave. (414) 224-3473.

Minneapolis, 55401, 218 Federal Bldg., 110 S. Fourth St. (612) 725-2133.

New Orleans, 70130, Room 432, International Trade Mart, 2 Canal St. (504) 589-6546.

New York, 10007, 37th Floor, Federal Office Bldg., 26 Federal Plaza, Foley Sq. (212) 264-0634.

Newark, N.J., 07102, Gateway Bldg. (4th floor) Market St. & Penn Plaza (201) 645-6214.

Omaha, Neb., 68102, 1815 Capitol Ave., Suite 703A (402) 221-3665.

Philadelphia, 19106, 9448 Federal Bldg., 600 Arch St. (215) 597-2850.

Phoenix, Ariz., 85004, 508 Greater Arizona Savings Bldg., 112 N. Central Ave. (602) 261-3285.

Pittsburgh, 15222, 2002 Federal Bldg., 1000 Liberty Ave. (412) 644-2850.

Portland, Ore., 97204, Room 618, 1220 S.W. Third Ave. (503) 221-3001.

Reno, Nev., 89502, 2028 Federal Bldg. 300 Booth St. (702) 784-5203.

Richmond, Va., 23240, 8010 Federal Bldg., 400 N. 8th St. (804) 782-2246.

St. Louis, 63105, 120 S. Central Ave. (314) 425-3302.

Salt Lake City, 84138, 1203 Federal Bldg., 125 S. State St. (801) 524-5116.

San Francisco, 94102, Federal Bldg., Box 36013, 450 Golden Gate Ave., (415) 556-5860.

San Juan, P.R., 00918, Room 659, Federal Bldg., Chardon Ave. (809) 763-6363, Ext. 555

Savannah, 31402, 235 U.S. Courthouse and Post Office Bldg., 125-29 Bull St. (912) 232-4321, Ext. 204.

Seattle, 98109, 706 Lake Union Bldg., 1700 Westlake Ave. North (206) 442-5615.

Calendar For World Traders

Feb. 1—New York—FCIB Roundtable Conference on International Finance, Credit, Collection and Exchange Problems, Summit Hotel.

Feb. 7—New York—World Trade Institute begins new semester of Evening School of World Trade. Information: Ellen Hemminger, 212-466-7777.

Feb. 7-11—Chicago—World Fair for Technology Exchange, O'Hare International Exposition Center. Information: Dr. Dvorkovitz & Assoc., Ormond Beach, Fla., 904-677-7033.

Feb. 8—Boston—International Business Center of New England seminar on Foreign Credit and Collection Techniques, Howard Johnson's Motor Hotel. Information: 617-542-0426.

Feb. 8—Annandale, Va.—First of five consecutive Tuesday evening seminars on Export Development and Documentation, Northern Virginia Community College. Information: Richmond District Office, 804-782-2246.

Feb. 8-9—Chicago—Tour and seminar at the U.S. Customs Service facility. Scheduled by the International Trade Club of Chicago, in cooperation with the American Importers Assn./Midwest Unit.

Feb. 9—New York—FCIB Book Exporters Credit Group luncheon meeting, Summit Hotel.

Feb. 9-11—New Orleans—Second Annual Central American Conference, International Trade Mart. Information: Mrs. Demaris Martinez, 504-529-1601.

Feb. 10—Columbia, S.C.—Midlands Trade Club meeting, Carolina Inn. Report on South Carolina trade mission to Far East will be presented. Reservations: 803-758-3531.

Feb. 10 — New York — Overseas Automotive Club luncheon meeting, Summit Hotel.

Feb. 11-12 — Lexington, Ky. — All-Kentucky Export Conference, Hilton Inn. Information: Marilee Heidt, 502-581-6790.

Feb. 15—New York—FCIB Hardware-Automotive & Allied Trades Group luncheon meeting, Summit Hotel.

Feb. 16 — Boston — International Business Center of New England seminar on Licensing and Joint Ventures Overseas, Harvard Club. Information: 617-542-0426.

Feb. 16—Greenville, S.C.—Greenville - Spartanburg International Trade Club meeting, Textile Hall. Reservations: 803-233-2564.

Feb. 16-17—New York—Investment Incentives for American Firms Doing Business in Europe, American Management Associations.

Feb. 17—New York—FCIB Drug, Chemical & Food Export Club luncheon meeting, Summit Hotel.

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